

RECORDATION NO. 18764

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0100177038

April 8, 1994

Union Pacific Railroad Company Lease Financing Dated as of March 31, 1994

Dear Mr. Strickland:

Pursuant to 49 U.S.C. § 11303 and the Commission's rules and regulations thereunder, as amended, I enclose herewith on behalf of Union Pacific Railroad Company, for filing and recordation counterparts of the following documents:

- A. Lease Agreement dated as of March 31, 1994, between NationsBank of South Carolina, National Association, as Lessor, and Union Pacific Railroad Company, as Lessee.
- B. Lease and Indenture Supplement No. 1 dated as of April 8, 1994, among NationsBank of South Carolina, National Association, as Owner Trustee/Lessor, Union Pacific Railroad Company, as Lessee, and Harris Trust and Savings Bank, as Indenture Trustee.

The names and addresses of the parties to the aforementioned agreement are as follows:

1. Lessor-Owner Trustee:
NationsBank of South Carolina, National Association
1901 Main Street
Columbia, SC 29201-2434

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INTERSTATE COMMERCE COMMISSION

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Counterparts C/hm

2. Indenture Trustee:
Harris Trust and Savings Bank
311 West Monroe
Chicago, IL 60606
3. Lessee:
Union Pacific Railroad Company
Martin Tower
Eighth and Eaton
Bethlehem, PA 18018

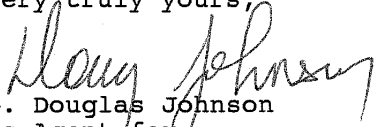
Please file and record the documents referred to in this letter and index them under the names of the Lessor-Owner Trustee, the Indenture Trustee and the Lessee.

The equipment covered by the aforementioned documents is listed on Exhibit A attached hereto. The equipment bears the legend "Ownership subject to a Security Agreement filed with the Interstate Commerce Commission".

There is also enclosed a check of \$36 payable to the Interstate Commerce Commission, representing the fee for recording the Lease Agreement and the Lease and Indenture Supplement No. 1.

Please stamp all counterparts of the enclosed documents with your official recording stamp. You will wish to retain one copy of the instruments for your files. It is requested that the remaining counterparts be delivered to the bearer of this letter.

Very truly yours,


G. Douglas Johnson
as Agent for
Union Pacific Railroad Company

Mr. Sidney L. Strickland, Jr.
Interstate Commerce Commission
Washington, D.C. 20423

Encls.

Q

EXHIBIT A

<u>No. of Units</u>	<u>Description</u>	<u>Road/Serial Numbers</u>
10	EMD/MP15 multipurpose locomotive	UP1335-1344, both inclusive
15	EMD/GP15-1 general purpose locomotive	UP1555-1569, both inclusive
55	EMD/GP38-2 general purpose locomotive	UP1800-1828, both inclusive, UP2074, UP2076, UP2078, UP2084, UP2087-2090, both inclusive, UP2092, UP2094, UP2096, UP2097, UP2099, UP2101, UP2103, UP2108, UP2111-2120, both inclusive

RECORDATION NO. 18764

APR 8 - 1994 - 1:45 PM

INTERSTATE COMMERCE COMMISSION

LEASE AGREEMENT

dated as of March 31, 1994

between

NATIONSBANK OF SOUTH CAROLINA, NATIONAL ASSOCIATION,
not in its individual capacity
but solely as Owner Trustee,
as Lessor

and

UNION PACIFIC RAILROAD COMPANY,
as Lessee

LOCOMOTIVES

CERTAIN RIGHTS, TITLE AND INTEREST COVERED HEREBY HAVE BEEN ASSIGNED TO HARRIS TRUST AND SAVINGS BANK, AS INDENTURE TRUSTEE, UNDER AN INDENTURE AND SECURITY AGREEMENT DATED AS OF MARCH 31, 1994. NO SECURITY INTEREST IN THIS LEASE AGREEMENT MAY BE CREATED THROUGH THE TRANSFER OR POSSESSION OF ANY COUNTERPART OTHER THAN THE ORIGINAL COUNTERPART THAT CONTAINS THE RECEIPT THEREFOR EXECUTED BY HARRIS TRUST AND SAVINGS BANK ON OR IMMEDIATELY FOLLOWING THE SIGNATURE PAGE THEREOF. THIS IS NOT THE ORIGINAL COUNTERPART.

THIS LEASE AGREEMENT (OR A MEMORANDUM HEREOF)
HAS BEEN FILED WITH THE INTERSTATE COMMERCE
COMMISSION PURSUANT TO 49 U.S.C. § 11303
AND DEPOSITED IN THE OFFICE OF THE
REGISTRAR GENERAL OF CANADA PURSUANT TO
SECTION 90 OF THE RAILWAY ACT OF CANADA

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Exhibit A--Form of Lease and Indenture Supplement

[D.JOHNSON/LEASETOC.WPF/120A/4575]

LEASE AGREEMENT dated as of March 31, 1994, between NATIONSBANK OF SOUTH CAROLINA, NATIONAL ASSOCIATION, not in its individual capacity but solely as trustee under the Trust Agreement, and UNION PACIFIC RAILROAD COMPANY, a Utah corporation.

Lessor and Lessee agree as follows:

SECTION 1. Definitions. Except as otherwise expressly provided, all capitalized terms used in this Lease shall have the meanings set forth in Schedule X hereto and the rules of interpretation set forth in Schedule X hereto shall apply to this Lease.

SECTION 2. Purchase and Lease; Term.

(a) Purchase and Lease. Effective on the Closing Date, if the conditions set forth in Article IV of the Participation Agreement have been satisfied, (i) Lessor shall purchase from the Seller the Locomotives described in the Bill of Sale and, through Lessee acting as Lessor's agent, shall accept delivery and title to and care, custody and control of such Locomotives, (ii) Lessor shall be deemed to have tendered delivery of such Locomotives to Lessee hereunder and Lessee shall be deemed to have accepted delivery thereof hereunder, (iii) Lessor shall lease such Locomotives to Lessee and Lessee shall lease such Locomotives from Lessor under this Lease for the Rent and Lease Term hereinafter described and upon the terms and conditions herein set forth and (iv) Lessor and Lessee shall conclusively evidence that such Locomotives have been made subject to this Lease by executing and delivering a Lease and Indenture Supplement substantially in the form attached as Exhibit A hereto.

(b) Lease Term. The interim term for the Locomotives shall commence on the Closing Date and shall continue until the Basic Term Commencement Date (the "Interim Term"). The Basic Term for the Locomotives shall commence on the Basic Term Commencement Date and shall continue until 11:59 p.m. (New York City time) on January 1, 2005 (the "Basic Term") (the Interim Term plus the Basic Term and any Renewal Terms actually entered into hereunder being referred to herein as the "Lease Term").

SECTION 3. Rent. (a) Interim Interest; Interim Rent. Pursuant and subject to Section 2.02(b) of the Participation Agreement, Owner Participant has agreed to pay

[4255-142/LEASE406.NEW/4200/3WN/120A]

to Indenture Trustee the interest accruing on the Notes Outstanding on the date of redemption of the Interim Notes (so long as such date is prior to the Basic Term Commencement Date) and on the Basic Term Commencement Date. To the extent not so paid by Owner Participant on such dates, Lessee agrees to pay to Lessor as Interim Rent such amounts on such dates. Lessee shall have the right to recover the amount, if any, of Interim Rent paid by it in lieu of payment by Owner Participant pursuant to this Section 3(a) on the terms and conditions set forth in Section 2.02(b) of the Participation Agreement.

(b) Basic Rent. Subject to any adjustments or offsets required by Section 3(f) of this Lease and Section 2.02(b) of the Participation Agreement, Lessee agrees to pay to Lessor (i) on each Payment Date during the Basic Term, Basic Rent for each Locomotive in an amount equal to Lessor's Cost for such Locomotive multiplied by the percentage listed opposite the relevant Payment Date in Schedule 3 hereto, (ii) for any Renewal Term, Basic Rent payable on such dates and in such amounts as is provided in Section 4(a) and (iii) for any extension of the Lease Term contemplated by Section 4(d), Basic Rent payable on each date Locomotives are delivered by Lessee to Lessor pursuant to Section 4(b) in an amount provided for in Section 4(d). Basic Rent shall be deemed for all purposes of this Lease to have been paid in advance or in arrears in accordance with the information set forth on Schedule 3 hereto. So long as any Note Outstanding bears interest at a variable rate, each installment of Basic Rent shall be increased or decreased, as the case may be, by the Rent Differential. For purposes hereof, Rent Differential shall mean, as of any Payment Date, the difference between (i) the aggregate amount of interest due and payable on such date on all Notes bearing interest at a variable rate and (ii) the aggregate amount of interest that would have been due and payable on such date on all Notes bearing interest at a variable rate if such Notes had at all times during the relevant period borne interest at a rate equal to 7.20% per annum (computed on the basis of a 360-day year of twelve 30-day months). If, as of any Payment Date, (A) the amount determined in accordance with clause (i) of the preceding sentence shall exceed the amount determined in accordance with clause (ii) of such sentence, the amount of Basic Rent due on such date shall be increased by the Rent Differential and (B) the amount determined in accordance with such clause (ii) shall exceed the amount determined in accordance with such clause

(i), the amount of Basic Rent due on such date shall be decreased by the Rent Differential.

(c) Supplemental Rent. In addition to its obligation to pay Interim Rent and Basic Rent hereunder, Lessee shall pay to Lessor or such other Person entitled thereto any and all Supplemental Rent (whether provided for herein or in any other Operative Document) as and when the same shall become due and owing, including the following:

(i) to the extent permitted by Applicable Law, interest at a rate per annum equal to the Overdue Rate on any part of any installment of Rent not paid when due (or received by Indenture Trustee too late on any day when due to permit timely distribution by Indenture Trustee to the Holders on said date) for the period from and including the date due to but excluding the date paid;

(ii) the Premium, if any, payable with respect to the Notes; and

(iii) fees and expenses of Owner Trustee and Indenture Trustee and amounts due pursuant to Section 7.09 of the Indenture.

(d) Manner of Payment; Unconditional Payment. All Rent (other than Excepted Property) shall be paid by Lessee to Indenture Trustee. All Rent shall be payable in immediately available funds at the place where payment is required to be made on or before 12:00 noon (New York City time) on the due date. This is a net lease and, except as specifically provided in this Section 3(d) and in Section 3(a) of this Lease and in Section 2.02(b) of the Participation Agreement, Lessee's obligation to pay Rent shall be absolute and unconditional under any and all circumstances and shall not be affected by any circumstances of any character, including (i) any setoff, counterclaim, recoupment, defense or other right which Lessee may have against Lessor, Indenture Trustee or any other Person for any reason whatsoever, (ii) any unavailability of any Locomotive, after its delivery and acceptance by Lessee hereunder, for any reason, including any lack or invalidity of title or any other defect in title, condition, design, operation, merchantability or fitness for use of such Locomotive, (iii) any loss or destruction of, or damage to, any Locomotive or interruption or cessation in the use or possession thereof by Lessee for any reason whatsoever and of whatever duration, (iv) any insolvency, bankruptcy,

reorganization, arrangement, readjustment of debt, dissolution, liquidation or similar proceeding by or against Lessor, Indenture Trustee, Lessee or any other Person, (v) the requisitioning, seizure or other taking of title to or use of any Locomotive by any government or governmental authority or otherwise, whether or not by reason of any act or omission of Lessor or Lessee or Indenture Trustee, or any other deprivation or limitation of use of such Locomotive in any respect or for any length of time, whether or not resulting from accident and whether or not without fault on the part of Lessee, (vi) the invalidity or unenforceability or lack of due authorization or other infirmity of this Lease or any other Operative Document, (vii) the lack of right, power or authority of Lessor or any other Person to enter into this Lease or any other Operative Document, (viii) any ineligibility of such Locomotive for any particular use, whether due to any failure of Lessor, Lessee or any other Person to comply with any Applicable Law or otherwise, (ix) any event of force majeure or any frustration, (x) any legal requirement, (xi) any Liens or rights of others with respect to any Locomotive, (xii) any right conferred by Applicable Law to a rebate of Rent or (xiii) any other cause, circumstance or happening, whether similar or dissimilar to the foregoing, any present or future law to the contrary notwithstanding. Lessee hereby waives, to the extent permitted by Applicable Law, any and all rights which it may now have or which at any time hereafter may be conferred upon it, by statute or otherwise, to terminate, cancel, quit or surrender this Lease except in accordance with the express terms hereof. All obligations of Lessee under this Lease shall be performed at its own cost, expense and risk, unless otherwise expressed. Except to the extent of any payment in excess of that required to be made hereunder, each payment of Rent made by Lessee shall be final, and Lessee will not seek to recover all or any part of such payment from Indenture Trustee, any Holder, Lessor or any Participant for any reason whatsoever, absent manifest error, except to the extent that the recipient was not entitled to receive the same. Nothing in this Section 3 or in Section 5 shall be construed as (a) a warranty by Lessee of the value of Lessor's or Owner Participant's interest upon termination of the Lease Term or the economic life of the Locomotives or (b) a prohibition of or restriction against an assertion of any claim or cause of action by Lessee with respect to Lessor, Indenture Trustee, any Participant or any other Person in an independent action. Notwithstanding the foregoing, provided no Default under Section 15(a) and no Event of Default has occurred and

is continuing, in the event of any breach of Section 24(j) by Lessor or any Person claiming through or against Lessor (other than Indenture Trustee, Loan Participant or any Holder or any Person claiming through or against any of the foregoing), which breach results in Lessee's inability to possess or use any Locomotive for its own purposes in accordance with the terms of this Lease, then, upon the expiration of five Business Days after Lessor and Owner Participant have received from any authorized employee or agent of Lessee telephonic notice (which shall be promptly confirmed in writing by Lessee) or other written notice permitted hereby of such interference describing such interference in such detail as is reasonably available to Lessee, Lessee shall have the right to abate that portion of Basic Rent (or Supplemental Rent constituting Excepted Property) payable by Lessee hereunder allocable to the Locomotives the use of which was so interfered with until such interference is cured, but no such abatement shall reduce the amount of any installment of Basic Rent or any payment of Stipulated Loss Value or Termination Value or any payment under Section 4(c)(iii)(A) or (C) below the amount necessary to pay principal of and accrued interest on the Notes that is due and payable at the time such installment or payment is paid. Any action authorized or permitted by this Lease, including inspection rights exercised in accordance with Section 8 of this Lease, shall not be considered a breach by Lessor of Section 24(j).

(e) Payment on Business Days. Whenever the date scheduled for any payment of Rent shall not be a Business Day, then such payment need not be made on such scheduled date but may be made on the next Business Day with the same force and effect as if made on such scheduled date and (provided such payment is made on such next Business Day) no interest shall accrue on the amount of such payment from and after such scheduled date to such next Business Day.

(f) Other Adjustments. The Basic Rent, Stipulated Loss Value percentages, Termination Value percentages and, on and prior to the Funding Date, Percentage Commitment shall be adjusted upward or downward (i) as provided in Section 2.01 of the Participation Agreement, (ii) on or prior to December 31, 1994, if Transaction Costs payable by Owner Participant are other than 1.50% of Lessor's Cost of all Locomotives, if the Closing Date or the Funding Date occurs on any date other than April 8, 1994, or if the percentages of aggregate Lessor's Cost to be depreciated pursuant to MACRS and ADR

appearing in Schedule 2 to the Participation Agreement are other than as specified, (iii) at any time if the interest rate on any Notes (other than Notes bearing interest at a variable rate) is other than 7.20% per annum or (iv) at any time if there is any refinancing pursuant to Article III of the Participation Agreement. Such adjustments shall maintain Owner Participant's Net Return, after giving effect to the changed factors taken into account in such adjustments (except that, for the purpose of calculating such adjustments with respect to the Funding Date, the assumed residual value of the Locomotives shall not exceed the assumed residual value that would have obtained based on Lessor's Cost equal to 103% of Lessor's Cost as of the Closing Date), and shall use a calculation method which shall minimize the net present value (computed utilizing a semiannual discount rate equal to 7.20% per annum) of Basic Rent payments. Such adjustments shall not result in the Lease not qualifying for FAS 13 operating lease treatment.

(g) Determination of Adjustments. Any adjustment pursuant to Section 3(f) shall initially be computed by Owner Participant, which shall employ a computer optimization program which results in Basic Rent (and, where applicable, Note amortization payment) structures similar to those in effect on the Closing Date (any such adjustment to be calculated in a manner consistent with the assumptions and calculation method previously used by Owner Participant). The results of such computation by Owner Participant shall promptly be delivered to Lessee and, unless verification is requested by Lessee as provided below, shall be final, binding and conclusive on Lessee, Owner Participant and Lessor. Within 10 Business Days after the receipt of the results of an adjustment, Lessee may request that the Verifying Accountant verify, after consultation with Owner Participant and Lessee, the accuracy of such adjustment in accordance with Section 3(f), and Lessee and Lessor (on behalf of Owner Participant) hereby agree to provide the Verifying Accountant with all information and materials as shall be reasonably necessary or desirable in connection therewith. In no event shall the Verifying Accountant be permitted to review the documents, programs or procedures used to calculate Owner Participant's internal rate of return, except to the extent necessary to make its verification. Prior to the selection of any Verifying Accountant, such Verifying Accountant shall execute a confidentiality agreement with respect to the subject matter of its review and agree to return to Owner Participant any materials of Owner Participant used by

such Verifying Accountant in the course of such verification or the performance of any duties in accordance with this Lease. If the Verifying Accountant confirms that such adjustment is in accordance with Section 3(f), it shall so certify to Lessee, and such certification shall be final, binding and conclusive on Lessee, Owner Participant and Lessor. If the Verifying Accountant concludes that such adjustment is not in accordance with Section 3(f), it shall so certify to Lessee and Owner Participant, and Owner Participant shall again compute the required adjustment. Such further adjustment shall again be subject to the provisions of this Section 3(g), until the Verifying Accountant shall certify to Lessee that such adjustment is in accordance with Section 3(f). Lessee and Owner Participant shall instruct the Verifying Accountant to deliver its certification within ten Business Days after each request for verification. The final determination of any recalculation or adjustment hereunder may be set forth in an amendment to this Lease. The reasonable fees of the Verifying Accountant shall be paid by Lessee within 10 days after demand, except that Owner Participant shall pay such fees, costs and expenses if the final determination differs from Owner Participant's original adjustment such that the net present value (calculated at a semiannual discount rate of 7.20% per annum) of the adjusted Basic Rent (expressed as a percentage of Lessor's Cost) is 10 or more basis points lower than the net present value (calculated at such rate) of the Basic Rent (expressed as a percentage of Lessor's Cost) set forth in Owner Participant's original adjustment.

(h) Sufficiency of Rent. Notwithstanding any provision to the contrary contained in this Lease (other than Section 13(c)) or in any other Operative Document, in all events the amounts payable by Lessee under this Lease shall be at least sufficient to pay the amounts due on the Notes. The amount of each Basic Rent payment payable hereunder shall at all times be at least sufficient to pay, on each Payment Date, payments then due on the Notes and, after taking into account any Basic Rent payable on such date (during any period when Basic Rent is payable in arrears), the amounts of Stipulated Loss Value and Termination Value payable hereunder and the amounts payable under Section 4(c)(iii)(A) and (C) shall at all times be at least sufficient to pay in full the principal and accrued interest on the Notes to be paid with such amounts.

SECTION 4. Renewal Terms; Redelivery; Purchase Options. (a) Renewal Terms. (i) Provided that no Default

under Section 15(e) and no Event of Default shall have occurred and be continuing, Lessee shall be entitled to renew this Lease pursuant to the terms and conditions of this Section 4(a) with respect to Locomotives constituting 50% or more of Lessor's Cost of all Locomotives being leased under this Lease on the day Lessee gives notice of its irrevocable election to renew (such Locomotives to be prorated among all Types thereof then subject to this Lease and, within each Type, determined by the Unit Selection Process), for the renewal terms specified below (each a "Renewal Term"), each of which shall commence at the end of such Basic Term or preceding Renewal Term (each a "Renewal Term Commencement Date") and end on a January 1 or July 1, and during which Basic Rent shall be payable in arrears on the Payment Dates during such Renewal Term.

(ii) In order to renew this Lease, Lessee shall provide Lessor and Indenture Trustee with a notice tentatively electing renewal, designating the Locomotives that Lessee proposes to re-lease and requesting the determination described below. Such notice shall be given (x) in the case of paragraph (iii)(A) below, not earlier than June 30, 1999, and not later than 180 days prior to the end of the Basic Term, (y) in the case of paragraph (iii)(B) below, not earlier than 360 days and not later than 240 days prior to the end of the Renewal Term specified in paragraph (iii)(A) below and (z) in the case of paragraph (iii)(C) below, not earlier than 360 days and not later than 180 days prior to the end of the Basic Term or previously elected Renewal Term, as the case may be. Promptly (and in any event within 90 days) after such notice is given by Lessee, a determination shall be made pursuant to the Appraisal Procedure of (A) the date on which the estimated remaining economic life of the relevant Locomotives will equal 20% of their original economic life, (B) the date on which the estimated residual value (without regard to inflation or deflation subsequent to the Closing Date) of such Locomotives is projected to be equal to 20% of Lessor's Cost thereof, (C) the Fair Market Sale Value of such Locomotives and (D) the Fair Market Rent for such Locomotives. After such determinations have been made, in order to renew this Lease, Lessee shall provide Lessor and Indenture Trustee with a notice irrevocably electing renewal, specifying the Locomotives to be re-leased and specifying the term of the elected Renewal Term. Such irrevocable notice shall be given, in the case of paragraph (iii)(A) below, not later than 90 days prior to the end of the Basic Term, in the case of paragraph (iii)(B)

below, not later than 150 days prior to the end of the Renewal Term specified in paragraph (iii)(A) below and, in the case of paragraph (iii)(C) below, not later than 90 days prior to the end of the Basic Term or previously elected Renewal Term, as the case may be.

(iii) Lessee shall be entitled to renew this Lease (A) for a Renewal Term of not less than one nor more than five years commencing at the end of the Basic Term and ending not later than either of the dates determined under paragraphs (ii)(A) and (ii)(B) above, with each payment of Basic Rent equal to 50% of Average Rent, (B) for a Renewal Term of not less than one year commencing at the end of the Renewal Term specified in clause (A) above and ending not later than the date determined under paragraphs (ii)(A) and (ii)(B) above, with each payment of Basic Rent equal to 50% of Average Rent and (C) for a Renewal Term of not less than one year commencing at the end of the Basic Term or any previously elected Renewal Term and of any duration, with each payment of Basic Rent equal to Fair Market Rent. Stipulated Loss Value percentages during any Renewal Term shall be 36.40625% on July 1, 2005, decline in equal semiannual steps to 20% on January 1, 2009 and be 20% at all times thereafter.

(iv) All provisions of this Lease shall be applicable during each Renewal Term, except that the Basic Rent and Stipulated Loss Value percentages payable during such Renewal Term shall be those specified in this Section 4(a) and Lessee shall have no right pursuant to Section 13 to terminate a Renewal Term prior to the end thereof.

(b) Redelivery; Storage. Lessee shall assemble and redeliver possession of the Locomotives, other than Locomotives that become subject to a Renewal Term or are purchased by Lessee in accordance with the terms of this Lease, at the expiration of the Lease Term therefor or any applicable storage period provided herein, in such numbers, and to locations, each of which shall be (i) at or within 50 miles of a major interchange point and (ii) on Lessee's lines or interconnection points with Lessee's lines (the "Redelivery Locations"), as Lessee shall designate by notice to Lessor not less than 30 days prior to such redelivery. Lessee shall continue to insure and bear the risk of loss of any Locomotive in accordance with this Lease until so redelivered in the condition required by Section 7(b). Lessee will, unless Lessee has received written notice from

Lessor at least 20 days prior to the end of the Lease Term directing Lessee not to store any such Locomotives, store each Locomotive to be redelivered in compliance with Lessee's normal storage procedures for similar equipment, without discrimination, free of charge but at Lessor's risk on storage tracks selected and owned by Lessee for a period commencing on the date of the actual delivery thereof to such storage tracks and terminating on a date not later than 90 days after such redelivery. As provided in the definition of Event of Loss, any Locomotive not returned in accordance with this Section 4(b) and in the condition required by Section 7(b) on or before 270 days after the end of the Lease Term shall be deemed to have become subject to an Event of Loss.

(c) Purchase Options. (i) Provided that no Event of Default shall have occurred and be continuing, Lessee shall be entitled to purchase pursuant to the terms and conditions of this Section 4(c) Locomotives constituting 50% or more of Lessor's Cost of all Locomotives being leased under this Lease on the day Lessee gives notice of its irrevocable election to purchase (such Locomotives to be prorated among all Types thereof then subject to this Lease and, within each Type, determined by the Unit Selection Process) as specified below.

(ii) In order to purchase Locomotives, Lessee shall provide Lessor and Indenture Trustee with a notice tentatively electing such purchase, designating the Locomotives that Lessee proposes to purchase and requesting the determination described below. Such notice shall be given, in the case of paragraphs (iii)(A) and (B) below, not earlier than 360 days and not later than 180 days prior to the proposed purchase date and, in the case of paragraph (iii)(C) below, not earlier than 270 days and not later than 150 days prior to the proposed purchase date. Promptly (and in any event within 90 days) after such notice is given by Lessee, a determination shall be made pursuant to the Appraisal Procedure of the Fair Market Sale Value of the relevant Locomotives. After such determination has been made, in order to purchase such Locomotives, Lessee shall provide Lessor and Indenture Trustee with a notice irrevocably electing such purchase and specifying the Locomotives to be purchased and the purchase date. Such irrevocable notice shall be given, in the case of paragraphs (iii)(A) and (B) below, not later than 90 days prior to the purchase date and, in the case of

paragraph (iii)(C) below, not later than 60 days prior to the purchase date.

(iii) The dates of purchase and purchase prices are as follows: (A) on the last day of the Basic Term, an amount equal to the lesser of the Fair Market Sale Value of the relevant Locomotives and 50.75% of Lessor's Cost of such Locomotives; (B) on the last day of any Renewal Term, an amount equal to the Fair Market Sale Value of the relevant Locomotives; and (C) on January 1, 2001, or any Payment Date thereafter (or on any Payment Date, if Lessee determines that repairs or modifications required by the first sentence of Section 7(a) or the first sentence of Section 9(a) are economically impractical), an amount equal to the greater of the Fair Market Sale Value of the relevant Locomotives and the Termination Value thereof as of such Payment Date. Upon payment of such purchase price and the payment by Lessee of all other Rent payable hereunder with respect to such Locomotives on or before such purchase date (including the Basic Rent becoming due and payable on such purchase date), the Lease Term for such Locomotives shall end and Lessee's obligation to pay further Basic Rent therefor shall terminate, and Lessor shall transfer all its right, title and interest in and to such Locomotives to Lessee, "as is", "where is" and without any representation, recourse or warranty on the part of Lessor except that such Locomotives are free and clear of all Owner Encumbrances. In the case of a purchase under clause (C) above, Lessee may credit against the purchase price the principal amount of any Notes assumed by it pursuant to Section 4.04 of the Indenture.

(d) Extension of Lease Term. The Lease Term shall be extended for any period (not greater than 270 days), necessary for the return of the Locomotives pursuant to Sections 4(b) and 7(b). Lessee shall pay the daily equivalent of Average Rent (or, if subject to a Renewal Term, the daily equivalent of Renewal Rent) for each Locomotive not so redelivered for the period from but excluding the date (i) 30 days after the expiration of the Lease Term to and including the date of actual redelivery hereunder if less than 80% of the Locomotives have been delivered pursuant to Section 4(b) on the expiration date of the Lease Term or (ii) 60 days after the expiration of the Lease Term to and including the date of actual redelivery hereunder if 80% or more of the Locomotives have been delivered pursuant to Section 4(b) on the expiration date of the Lease Term.

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(e) Time Is of the Essence. The provisions of this Section 4 must be fulfilled in a timely manner and time is of the essence in connection with the performance of each party's obligations under this Section 4.

SECTION 5. Disclaimer of Warranties. (a) No Representation or Warranty. LESSEE ACKNOWLEDGES THAT (i) THE LOCOMOTIVES ARE OF SIZE, CAPACITY, DESIGN AND MANUFACTURE SELECTED BY LESSEE AND SUPPLIED BY SELLER, (ii) THE LOCOMOTIVES ARE SUITABLE FOR LESSEE'S PURPOSES, (iii) NEITHER LESSOR, INDENTURE TRUSTEE NOR ANY PARTICIPANT IS A MANUFACTURER OR DEALER IN SUCH PROPERTY AND NEITHER HAS INSPECTED THE LOCOMOTIVES PRIOR TO DELIVERY TO AND ACCEPTANCE BY LESSEE AND (iv) EACH LOCOMOTIVE IS LEASED HEREUNDER SUBJECT TO ALL APPLICABLE LAWS. LESSOR LEASES AND LESSEE TAKES EACH LOCOMOTIVE "AS IS", "WHERE IS" AND WITH ALL FAULTS. LESSEE ACKNOWLEDGES THAT NONE OF LESSOR, INDENTURE TRUSTEE NOR ANY PARTICIPANT MAKES ANY REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, AND EACH EXPRESSLY DISCLAIMS AND LESSEE WAIVES, AS BETWEEN ITSELF AND LESSOR, INDENTURE TRUSTEE AND ANY PARTICIPANT, ANY AND ALL RIGHTS OR CLAIMS AS TO THE DESIGN, OPERATION OR CONDITION OF THE LOCOMOTIVES OR AS TO THE VALUE, CONDITION, DESIGN OR MERCHANTABILITY OF THE LOCOMOTIVES, OR AS TO THE FITNESS OF THE LOCOMOTIVES FOR ANY PARTICULAR USE OR PURPOSE, AS TO THE QUALITY OF MATERIAL OR WORKMANSHIP OR CONFORMITY TO SPECIFICATIONS OF ANY PURCHASE ORDER RELATING THERETO, OR AS TO THE ABSENCE OF LATENT OR OTHER DEFECTS WHETHER OR NOT DISCOVERABLE, OR AS TO THE ABSENCE OF ANY INFRINGEMENT OF ANY PATENT, TRADEMARK OR COPYRIGHT, OR AS TO THE ABSENCE OF ANY OBLIGATIONS BASED ON STRICT LIABILITY IN TORT OR, EXCEPT AS SET FORTH IN SECTION 5(b) OR AS OTHERWISE PROVIDED IN THE OPERATIVE DOCUMENTS, ANY OTHER REPRESENTATION OR WARRANTY WHATSOEVER, EXPRESS OR IMPLIED, WITH RESPECT TO THE LOCOMOTIVES, AND UNDER NO CIRCUMSTANCES WHATSOEVER SHALL LESSOR, INDENTURE TRUSTEE OR ANY PARTICIPANT BE LIABLE OR RESPONSIBLE TO LESSEE FOR ANY CONSEQUENTIAL DAMAGES. The provisions of this Section 5 have been negotiated and, except as provided above, are intended to be a complete exclusion and negation of any representation or warranty, express or implied, by Lessor, Indenture Trustee or any Participant in any capacity with respect to any Locomotive or any part thereof, whether arising pursuant to the Uniform Commercial Code or any other law now or hereafter in effect or otherwise.

(b) Title. Notwithstanding Section 5(a), Lessor represents and warrants that on the Closing Date it will

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have whatever title to the Locomotives was conveyed to it on such date by Seller, subject to no Owner Encumbrances.

SECTION 6. Use and Operation of Locomotives; Certain Agreements. During the Lease Term, so long as no Event of Default has occurred and is continuing, Lessee has the exclusive right to possession, control and full use of the Locomotives leased hereunder and may use such Locomotives in any lawful trade or commerce, except that Lessee shall use each Locomotive only in the manner for which it was designed and intended and such Locomotives shall not be used or operated in any manner contrary to any Applicable Law or outside the United States of America, Canada or Mexico. Nothing in this Section 6 shall be deemed to constitute permission by Lessor to any Person who acquires possession of any Locomotive to take any action inconsistent with the terms and provisions of this Lease or any other Operative Document. The rights of any Person who acquires possession of any Locomotive pursuant to this Section 6 shall be subject and subordinate to the rights of Lessor hereunder.

SECTION 7. Maintenance; Return Condition.
(a) Maintenance. Lessee shall throughout the Lease Term maintain (and will not discriminate in the maintenance of) the Locomotives consistent with Lessee's standards for similar owned and leased switch locomotives engaged in operations similar to those engaged in by the Locomotives, in compliance with all Federal Railroad Administration and Association of American Railroads specifications and regulations and in compliance with any and all Applicable Laws and industry regulations and in good condition, normal wear and tear excepted. Lessee shall maintain or cause to be maintained all records, logs and other documents required by Applicable Law to be maintained with respect to each Locomotive, and will maintain such records and logs on a non-discriminatory basis and in accordance with Lessee's normal record keeping procedures.

(b) Return Condition. Locomotives being returned shall be free and clear of all Liens (except any Owner Encumbrances) and shall be free from accumulations or deposits and otherwise be in the condition required by this Section 7 (as if the Locomotives had been maintained in accordance with the provisions of Section 7(a) and by Section 9(b)). Lessor or its agent may inspect any Locomotive returned hereunder to determine whether such Locomotive is in the condition required by this Section 7(b)

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at such time and location as Lessor and Lessee may reasonably establish. At such inspection, inspectors representing both Lessee and Lessor, or, if agreed to by Lessor and Lessee, an Independent inspector satisfactory to both parties, shall be present and shall determine and state the agreed repairs or work necessary to place such Locomotive on the date of return in the condition required by this Section 7(b). Lessee and Lessor shall bear the cost of their respective inspectors and shall equally share the cost of any Independent inspection, in each case for all initial inspections. Lessee shall use its best efforts, without unreasonably disrupting its operations, to allow inspection of as large a group of Locomotives as practicable at any one time and location. Lessee will provide Lessor with written notice when each Locomotive has been repaired or work has been completed on such Locomotive so as to be in the condition required by this Section 7(b) and is ready to be reinspected as provided above, such reinspection to occur within fifteen Business Days from the date of receipt of such written notice. If such Locomotive is still not in the condition required by this Section 7(b), then such reinspections, repairs and work shall continue in accordance with the procedures set forth above until the Locomotive is in the condition required by this Section 7(b), at which time the Lease Term for such Locomotive shall end. All reinspections required pursuant to this Section 7(b) shall be at the expense of Lessee.

SECTION 8. Inspection. Lessor, Owner Participant and Indenture Trustee, or their duly authorized representatives (and during a period when any Locomotive is stored pursuant to Section 4(c), any prospective purchaser or user of such Locomotive), may inspect during normal business hours (Monday through Friday, between 8:00 a.m. and 4:00 p.m. local time) and at such other times as may be mutually agreeable, upon reasonable notice and at their own risk and expense (except in the case of negligence or misconduct of Lessee), the Locomotives (and any locomotive proposed as a Replacement Locomotive pursuant to Section 12(c)) and applicable maintenance and use records relating thereto, and Lessee shall make the foregoing available to each such party, but none of Lessor, Owner Participant or Indenture Trustee shall have any duty to do so. In exercising such right of inspection, Lessor, Owner Participant, Indenture Trustee and their duly authorized representatives shall not unreasonably interfere with Lessee's normal business operations, shall abide by all Lessee's rules and regulations regarding safety and

operation and shall not unreasonably interfere with any repairs or maintenance or the use and operation of the Locomotives.

SECTION 9. Improvements. (a) Improvements.

Except as provided in Section 13(a), Lessee shall make such Improvements (it being agreed that, notwithstanding any other provision of this Lease, mobile communication systems (commonly referred to as ATCS, the removal of which does not prevent the operation of the Locomotive as a locomotive), including portable computer terminals, keyboards, CRTs, computer processing units, wiring, direct power supply, software, modems and brackets, together with related testing equipment, shall not constitute Improvements and shall at all times belong to Lessee any may be removed by Lessee at any time) to the Locomotives as shall be required in order to comply with Section 7. In addition, Lessee may make such other Improvements to the Locomotives as Lessee may deem desirable but only to the extent that (i) in the case of any Severable Improvement, such Severable Improvement is readily removable without causing material damage to the Locomotives and without impairing their fair market value, utility or remaining economic life at the end of the Lease Term (determined as if such Improvements had not been made), assuming such Locomotive will be in the condition required to be maintained under this Lease at the end of the Lease Term, (ii) in the case of any Nonseverable Improvement, such Nonseverable Improvement does not diminish such Locomotive's fair market value, utility or remaining economic life, assuming such Locomotive will be in the condition required to be maintained under this Lease at the end of the Lease Term, and (iii) such Improvements would not cause such Locomotives to become "limited use property" within the meaning of Revenue Procedure 76-30 promulgated by the Internal Revenue Service.

(b) Title; Removal of Severable Improvements.

Title to each Nonseverable Improvement shall without further act vest in Lessor. Title to each Severable Improvement shall without further act vest or remain, as the case may be, in Lessee, and, provided no Event of Default shall then have occurred and be continuing, Lessee at its own expense and risk may remove any Severable Improvement from a Locomotive at any time prior to redelivery pursuant to Sections 4(b) and 7(b) if (i) such Severable Improvement constitutes an addition, and not a replacement of or a substitution for, any part originally incorporated or installed in or attached to such Locomotive at the time of

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delivery thereof hereunder or any part in replacement of or substitution for any such original part, (ii) such Severable Improvement is not required pursuant to the terms of Section 9(a), (iii) such Severable Improvement can be removed without diminishing or impairing the value, utility or remaining economic life which such Locomotive would have had at the time of removal had such Improvement not been effected by Lessee, assuming that such Locomotive is otherwise maintained in the manner required by this Lease, and (iv) Lessee repairs any damage to such Locomotive caused by such removal. At the expiration of the Lease Term, any Severable Improvement not so removed shall without further act become the property of Lessor. Lessor shall have the right at the expiration of the Lease Term (i) to purchase any Severable Improvements (unless proprietary to Lessee) from Lessee for the Fair Market Sale Value thereof (determined pursuant to the Appraisal Procedure) or (ii) to require Lessee to remove such Severable Improvements.

(c) Removal of Property; Replacements. Lessee may, in the ordinary course of maintenance or repair of any Locomotive, remove any item of property constituting a part of such Locomotive, and, unless the removal of such item is required by Section 7, Lessee shall replace such item as promptly as possible by an item of property that is free and clear of all Liens (other than Permitted Encumbrances) and in as good condition as, and with a value, utility and remaining economic life at least equal to, the item of property being replaced, assuming such item was in the condition required by this Lease. Any item of property removed from such Locomotive as provided in the preceding sentence shall remain the property of Lessor until replaced in accordance with the terms of the preceding sentence, but shall then without further act become the property of Lessee. Any such replacement property shall without further act become the property of Lessor and be deemed part of such Locomotive for all purposes hereof. This paragraph (c) shall not apply to Rehabilitation.

(d) Identification Marks. Lessee shall (i) cause each Locomotive to be kept numbered with the identifying number set forth in Schedule 1 to the Lease and Indenture Supplement executed and delivered on the Closing Date and (ii) as soon as practicable after such Locomotive becomes subject to this Lease, keep and maintain plainly, distinctly, permanently and conspicuously marked on both sides of such Locomotive in letters not less than one inch in height, the words "Ownership subject to a Security

Agreement filed with the Interstate Commerce Commission" or "Owned by a bank or finance company, and subject to a security agreement filed with the Interstate Commerce Commission" or "Owned by a bank or finance company, and subject to a security interest in favor of one or more financial institutions" or other appropriate words designated by Lessor, with appropriate changes thereof and additions thereto as from time to time may be required by Applicable Law or reasonably deemed necessary or advisable by Lessor or by Indenture Trustee in order to protect the title of Lessor and the rights of Lessor and Indenture Trustee under the Operative Documents. Lessee will replace promptly any such markings which may be removed, defaced, obliterated or destroyed. Lessee will not permit the identifying number of any Locomotive to be changed except in accordance with a Lease amendment or statement of new identifying numbers to be substituted therefor, which Lease amendment or statement shall have been previously filed, recorded or deposited with Lessor and Indenture Trustee and in all public offices where this Lease has been filed, recorded or deposited. Except as provided above, Lessee will not allow the name of any Person to be placed on the Locomotives (other than that of the manufacturer of such Locomotives) as a designation that might reasonably be interpreted as a claim of ownership; but Lessee may cause the Locomotives to be lettered with the names or initials or other insignia customarily used by Lessee, its permitted sublessees or any of their respective Affiliates on railroad equipment used by it or its sublessees of the same or a similar type.

SECTION 10. Liens. None of Lessee, any sublessee or any other Person shall directly or indirectly have any right, power or authority to, and shall not, create, assume, incur or permit to exist any Lien on or with respect to any Locomotive, other than Permitted Encumbrances. Lessee shall notify Lessor promptly of the imposition of any such Lien (other than Permitted Encumbrances) and shall promptly cause the same to be discharged, dismissed or removed, and in any event within 30 days after Lessee first knows of the existence thereof. If any Locomotive shall be attached, levied upon or taken into custody, or detained or sequestered, by virtue of any proceeding in any court or tribunal, or by any governmental or other authority on account of any such Lien, Lessee shall cause such Locomotive to be released and all such Liens to be promptly discharged. Notwithstanding the foregoing provisions of this Section 10, Lessee shall have the right to contest any such Lien in good

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faith by appropriate proceedings, diligently prosecuted or appealed, so long as such Lien does not involve any non-de minimis risk of a sale, forfeiture or loss of such Locomotive and so long as Lessee has provided adequate security therefor in the reasonable opinion of Lessor and Indenture Trustee.

SECTION 11. Insurance. (a) Lessee shall at all times after the Closing Date carry and maintain or cause to be carried and maintained (i) property insurance with respect to each Locomotive subject to this Lease and (ii) public liability insurance with respect to third party personal and property damage, in each case with such deductibles, in such amounts, against such risks, with such insurance companies of recognized responsibility and subject to such self-insurance, as is consistent with prudent industry practice for Class I Railroads, and, in any event, in amounts not less than and against such risks so as to be at least equal to the insurance, if any, maintained by Lessee with respect to similar types of locomotives owned or leased by Lessee. Lessor and Indenture Trustee shall be named additional insureds on each such policy.

(b) The proceeds of any insurance for damage to any Locomotive not constituting an Event of Loss shall be applied in payment for the repair of such damage to the extent required to maintain such Locomotive in accordance with Section 7, if such repair shall not have already been paid for by Lessee, or, if already paid by Lessee, to reimburse Lessee for its payment of such repair, and any balance remaining after compliance with Section 7 shall be paid over to or retained by Lessee.

(c) Lessee will not do any act or voluntarily suffer or permit any act to be done whereby any insurance required to be maintained hereunder shall or may be suspended or impaired and will not suffer or permit any Locomotive to be used in a manner not permitted under the insurance policies, if any, maintained hereunder without first covering such Locomotive for such use.

(d) Any Participant, Indenture Trustee or Lessor may, but shall not be required to, at its own expense provide insurance on or with respect to the Locomotives or the operation thereof unless such insurance would conflict with or otherwise limit any insurance maintained by Lessee pursuant to this Section 11, but only if such insurance so maintained by Indenture Trustee, Lessor or any Participant

shall provide by its terms that the insurer shall have no rights of subrogation against Lessee with respect to claims thereunder. Nothing in this Section 11(d) shall be deemed to limit Lessor's or Indenture Trustee's rights under Section 22.

(e) Lessee will arrange to be delivered to Lessor, each Participant and Indenture Trustee on or prior to the Closing Date a certificate of a Responsible Officer of Lessee to the effect that the insurance required hereunder has been obtained and is in full force, together with certificates of insurance signed by the insurer or an independent insurance broker of national reputation evidencing same. Lessor may, but not more than once in any twelve-month period, request from Lessee and Lessee shall promptly thereafter furnish to Lessor and Indenture Trustee a certificate of a Responsible Officer setting forth all insurance maintained by Lessee pursuant to this Section 11 and describing such policies, if any, including the amounts of coverage, any deductible amounts, the names of the insurance providers and a general description of each such policy's terms.

(f) To the extent available and customarily obtained by Lessee with respect to equipment which is similar to the Locomotives and which is owned by or leased to Lessee, Lessee shall arrange for the policies of insurance carried by or on behalf of Lessee in accordance with this Section 11 to:

(i) provide that in respect of the respective interests of Lessor, Indenture Trustee and Owner Participant in such policies the insurance shall not be invalidated by any action or inaction of Lessee or any additional insured (other than such additional insured, as to such additional insured) and shall insure Lessor's, Indenture Trustee's and Owner Participant's interests as they appear, regardless of any breach or violation of any warranty, declaration or condition contained in such policies by Lessee or any additional insured (other than such additional insured, as to such additional insured);

(ii) provide that, if such insurance is cancelled for any reason whatsoever, or any substantial change is made in the policy which affects the coverage certified hereunder to Lessor, Indenture Trustee or Owner Participant, or if such insurance is allowed to lapse for nonpayment of premium, such cancellation, change or lapse

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shall not be effective as to Lessor, Indenture Trustee or Owner Participant for 30 days after receipt by Lessor, by Indenture Trustee or by Owner Participant, respectively, of notice from such insurers of such cancellation, change or lapse;

(iii) provide that none of Lessor, Indenture Trustee or Owner Participant shall have any obligation or liability for premiums, commissions, assessments or calls or advances in connection with such insurance;

(iv) provide that the insurers shall waive (A) any rights of set-off, counterclaim or any other deduction, whether by attachment or otherwise, which they may have against Lessor, Indenture Trustee or Owner Participant and (B) rights of subrogation against Lessor, Indenture Trustee and Owner Participant;

(v) be primary without right of contribution from any other insurance which may be carried by Lessor, Indenture Trustee or Owner Participant with respect to its interests as such in the Locomotives; and

(vi) expressly provide that all of the provisions thereof, except the limits of liability, shall operate in the same manner as if there were a separate policy covering each insured.

SECTION 12. Loss, Requisition or Seizure.

(a) Requisition. A taking of any Locomotive for use by any governmental entity shall not terminate this Lease with respect to such Locomotive, but Lessee shall remain liable for all its obligations hereunder and under the other Operative Documents with respect to such Locomotive, including its liability for payment of Rent, unless and until such taking becomes an Event of Loss, at which time the provisions of Section 12(b) shall apply. So long as such taking shall not have become an Event of Loss, all payments received by Lessor or Lessee for use of such Locomotive as a result of such taking during the Lease Term shall be paid over to or retained by Lessee unless an Event of Default shall have occurred and be continuing, in which event such payments shall be paid over to and held by Lessor. Provided no Event of Default shall have occurred and be continuing, after an Event of Loss with respect to a Locomotive, all payments received by Lessor or Lessee for use of such Locomotive under this Section 12(a) shall be paid over to or retained by Lessee if Lessee has either made

payment to Lessor for any such Locomotive as provided in Section 12(b) or replaced any such Locomotive as provided in Section 12(c). If an Event of Default shall have occurred and be continuing, all such payments shall be paid over to and held by Lessor.

(b) Event of Loss. Subject to the provisions of Section 12(c), after an Event of Loss occurs with respect to any Locomotive, Lessee shall pay to Lessor on or prior to the first Payment Date following such Event of Loss, unless such first Payment Date shall occur less than 45 days after the occurrence of such Event of Loss, in which event on the second Payment Date after such Event of Loss occurs, (x) the Stipulated Loss Value for such Locomotive (unless Stipulated Loss Value therefor has theretofore been paid), computed as of such Payment Date (or, in the case of an Event of Loss under clause (vii) of the definition of Event of Loss, the higher of Stipulated Loss Value for such Locomotive as of the end of the Lease Term and the Fair Market Sale Value thereof) plus (y) all other unpaid Rent for such Locomotive accrued to the date of the payment described in clause (x) above, except that no payment of Basic Rent for such Locomotive shall be made on such date to the extent Basic Rent is then being paid in advance. Upon the payment in full of such Stipulated Loss Value and such other amounts, the Lease Term for such Locomotive shall end, Lessee's obligation to pay further Basic Rent therefor shall terminate, Lessor will transfer to Lessee, "as is", "where is" and without recourse or warranty (except as to the absence of Owner Encumbrances), all of Lessor's right, title and interest in and to such Locomotive and Lessee or its designee shall be subrogated to all rights that Lessor shall have with respect to such Locomotive and shall have the right to abandon such Locomotive to underwriters on behalf of Lessor as well as itself (in which case Lessor, at Lessee's expense, shall execute or cause to be executed such documents and take such other action as Lessee shall require to effect the surrender to the insurance underwriters of such Locomotive). All payments received by Lessor or Lessee from any insurer or governmental authority or otherwise as compensation for an Event of Loss with respect to a Locomotive shall be applied to pay the Stipulated Loss Value of such Locomotive, if not already paid by Lessee, or, if already paid by Lessee, shall be applied to reimburse Lessee for its payment of Stipulated Loss Value, and, so long as no Event of Default then exists, the balance, if any, of such payments shall be shared between Lessee and Lessor as their interests may appear, except that the balance of any such

payments constituting insurance payments under insurance maintained by Lessee shall be retained by Lessee.

(c) Replacement. Provided no Event of Default shall have occurred and be continuing, in lieu of payment of Stipulated Loss Value for any Locomotive that has suffered an Event of Loss (other than by virtue of clause (vi) or (vii) of the definition thereof), Lessee may, on or prior to the date on which such Stipulated Loss Value would have otherwise been due, convey or cause to be conveyed to Lessor, as replacement for such Locomotive, title to a Replacement Locomotive free and clear of all Liens other than Permitted Encumbrances and having a fair market value, utility and remaining economic life at least equal to, and being in as good condition as, such replaced Locomotive, assuming such replaced Locomotive was in the condition and repair required by the terms hereof immediately prior to the occurrence of such Event of Loss. Prior to or at the time of any such conveyance, Lessee will (i) furnish Lessor with a bill of sale (including an assignment of warranties, if any), in form and substance reasonably satisfactory to Lessor, with respect to such Replacement Locomotive, (ii) duly execute a supplement to this Lease and the Indenture which shall subject such Replacement Locomotive to this Lease and, so long as the Indenture shall not have been satisfied and discharged, to the lien of the Indenture and cause such supplement to be delivered to Lessor and, so long as the Indenture shall not have been satisfied and discharged, to Indenture Trustee for execution and, upon such execution, cause such supplement to be filed for recordation in the same manner as provided for the Lease and Indenture Supplement covering the replaced Locomotive pursuant to Section 23, (iii) furnish to Lessor and Indenture Trustee an Officer's Certificate certifying that the Replacement Locomotive is free and clear of all Liens other than Permitted Encumbrances, (iv) furnish to Lessor and Indenture Trustee an opinion of Lessee's counsel to the effect that (x) the bill of sale referred to in clause (i) above constitutes an effective instrument for the conveyance to Lessor of title to the Replacement Locomotive and (y) that all filings, recordings and other action necessary to perfect Lessor's and Indenture Trustee's respective interests in the United States of America and Canada in the Replacement Locomotive have been accomplished and (v) furnish to Lessor and Indenture Trustee a certificate of a qualified engineer (who may be an engineer employed by Lessee, unless the Replacement Locomotive is not the same Type as the Locomotive being replaced and five or more

Locomotives have theretofore suffered Events of Loss, in which case Owner Participant may demand that the certificate be prepared by an Independent engineer reasonably satisfactory to Lessor and Lessee, whose fees and expenses shall be paid by Lessee) certifying that the Replacement Locomotive has a fair market value, utility and remaining economic life at least equal to the Locomotive replaced thereby (assuming that such replaced Locomotive was maintained in the condition required by the terms of this Lease) and setting forth a reasonable basis for such conclusion in reasonable detail. Upon full compliance by Lessee with the terms of this Section 12(c), Lessor will transfer to Lessee, "as is", "where is" and without recourse or warranty (except as to the absence of Owner Encumbrances), all of Lessor's right, title and interest in and to such replaced Locomotive. For all purposes hereof, each such Replacement Locomotive shall, after such conveyance, be deemed a "Locomotive" as defined herein with the same Lessor's Cost as the Locomotive it replaced. No Event of Loss with respect to a Locomotive under the circumstances contemplated by the terms of this Section 12(c) shall result in any reduction in Basic Rent.

(d) Other Dispositions. Notwithstanding the foregoing provisions of this Section 12, so long as an Event of Default shall exist, any amount that would otherwise be payable to or for the account of, or that would otherwise be retained by, Lessee pursuant to this Section 12 shall be paid to Indenture Trustee (or Lessor after release of the lien of the Indenture) as security for the obligations of Lessee under this Lease and, at such time thereafter as no Event of Default shall exist, such amount shall be paid promptly to Lessee unless remedies are being exercised pursuant to Section 16, in which event such amount shall be disposed of in accordance with the provisions hereof, of the Indenture and of the Trust Agreement.

SECTION 13. Termination for Obsolescence or Surplus. (a) So long as no Event of Default shall have occurred and be continuing, in the event that a Responsible Officer of Lessee shall determine that a group consisting of at least ten Locomotives (to be selected by the Unit Selection Process if such determination is made with respect to fewer than all Locomotives) have become economically obsolete or surplus to Lessee's requirements and shall have delivered to Lessor and Indenture Trustee an Officer's Certificate to such effect, Lessee shall have the right (the "Termination Right") during the Basic Term, at Lessee's

option, on at least 90 days' prior written notice to Lessor and Indenture Trustee, to terminate this Lease with respect to such group on a Payment Date on or after July 1, 1999 (for the purpose of this Section 13(a) called the "Termination Date") specified in such notice (a "Termination Notice"). Lessee may revoke in writing, on no more than two occasions, any Termination Notice not less than 35 days prior to the Termination Date if Lessor has not theretofore elected to retain ownership of any Locomotives being terminated pursuant to the first sentence of Section 13(b).

(b)(i) Within 30 days of receipt of the Termination Notice, Lessor may elect, by prior written notice to Lessee and Indenture Trustee, to retain ownership of any Locomotives being terminated, in which case Lessee shall have no obligation to pay Termination Value or any portion thereof (but will pay all Rent due on the Termination Date with respect to such Locomotives, other than any Basic Rent payable in advance on such date) with respect to the Locomotives being terminated, and Lessee shall deliver such Locomotives to Lessor on the Termination Date at an interchange point on the lines of Lessee designated by Lessee and reasonably acceptable to Lessor or, at the option of Lessor, Lessee shall arrange for the redelivery (but not storage) of such Locomotives pursuant to Section 4(b) and in the condition required by Section 7(b). Lessor shall inspect such Locomotives within 10 days of receipt of notice of their actual redelivery and confirm to Lessee whether or not such Locomotives are in the condition required by Section 7(b). If Lessor shall not so elect to retain ownership, during the period from the expiration of such 30-day period until the Business Day immediately preceding the Termination Date, Lessee, as agent for Lessor, shall use commercially reasonable efforts to obtain bids for the purchase of such Locomotives, but Lessee shall not be responsible to Lessor for failure to obtain the best price. Lessee's sole interest in selling such Locomotives shall be to obtain a price that reduces or eliminates its obligation to pay the difference between such sales price and the Termination Value applicable to such Locomotives. On the Business Day immediately preceding the Termination Date, Lessee shall certify to Lessor the amount of any such bids and the name and address of each bidder. On the Termination Date Lessor shall sell such Locomotives for cash to the bidder who shall have submitted the highest bid (including Owner Participant, who shall be permitted to bid on the same basis as any other bidder, but excluding Lessee or any Affiliate of Lessee). The sales price (net of costs and

expenses, including all applicable sales taxes, of Lessor, Indenture Trustee and Owner Participant) realized at such sale shall be paid to Lessor, and on the Termination Date Lessee shall pay to Lessor all Rent due on such date with respect to such Locomotives (other than any Basic Rent payable in advance on such date) and Lessee shall pay to Lessor the amount, if any, by which the Termination Value for such Locomotives, computed as of such Termination Date, exceeds such net sales price, whereupon the Lease Term for such Locomotives shall end and Lessee's obligation to pay further Basic Rent therefor shall terminate. Neither Lessor nor Indenture Trustee nor any Participant shall be under any duty to solicit bids (but shall have the right to do so), to inquire into the efforts of Lessee to obtain bids or otherwise to take any action or incur any cost or expense in connection with any sale pursuant to this Section 13 other than to transfer or cause to be transferred to the highest bidder all Lessor's right, title and interest in and to such Locomotives. Any sale pursuant to this Section 13 shall be made "as is", "where is" and without any representation, recourse or warranty on the part of Lessor except that such Locomotives are free and clear of Owner Encumbrances.

(c) If Lessor elects to retain such Locomotives as set forth in the first sentence of Section 13(b), not less than 30 days prior to the Termination Date, (i) Lessor shall pay or cause to be paid to Indenture Trustee an amount equal to the principal of and accrued interest on the Notes to be redeemed as a consequence of such termination (and, if it fails to do so, Lessor shall not be entitled so to retain such Locomotives) and (ii) Lessee shall pay or cause to be paid to Indenture Trustee an amount equal to any Premium on the Notes to be redeemed as a consequence of such termination.

(d) Unless Lessor elects to retain such Locomotives as set forth in the first sentence of Section 13(b), Lessee shall pay the reasonable out-of-pocket appraisal, legal, inspection and similar costs and expenses of Lessor, Indenture Trustee and Participants in connection with any Termination Notice regardless of whether such Termination Notice is subsequently revoked pursuant to Section 13(a).

SECTION 14. Assignment and Sublease.

(a) Assignment. If no Event of Default has occurred and is continuing, Lessee may, without the prior consent of Lessor or Indenture Trustee, assign or transfer all of its rights

and obligations under this Lease and the other Operative Documents (i) to any Affiliate in Lessee's consolidated tax group for Federal income tax purposes, in which case Lessee shall remain fully and primarily liable for all its obligations under this Lease and the other Operative Documents as though no such assignment or transfer occurred, (ii) to any entity with which Lessee shall have merged or consolidated or which shall have acquired all or substantially all of the railroad properties of Lessee, so long as (A) such assignee or transferee shall have duly assumed the obligations of Lessee under this Lease and the other Operative Documents by written instrument reasonably satisfactory to Lessor and Indenture Trustee and (B) such assignment or transfer will not cause an Event of Default, and (C) there shall have been delivered to Lessor, Owner Participant and Indenture Trustee an Officer's Certificate of such successor and an opinion of its general counsel, each stating that such assignment or transfer complies with this Section 14(a), and upon any assignment under this clause (ii) and in accordance therewith, Lessee shall be released from its obligations under this Lease and the other Operative Documents and, if requested by Lessee, Lessor, at the expense of Lessee, shall execute and deliver such documents as may be necessary or appropriate to effectuate and confirm such release or (iii) if no Notes are Outstanding or Lessee has assumed the Notes pursuant to Section 4.04 of the Indenture, to any entity which is not involved in any litigation with Lessor, but only with Lessor's written consent, which shall not be withheld in bad faith (Lessor agreeing to deliver a written statement describing in reasonable detail the reasons for any such denial of consent). Any assignment done in violation of this Section 14(a) shall be void.

(b) Sublease. Lessee may, so long as no Event of Default shall have occurred and be continuing, enter into a sublease of or similar arrangement for any Locomotive, provided that (i) such sublease or arrangement shall be expressly subject and subordinate to the terms of this Lease and the Indenture, including the rights of Lessor and Indenture Trustee to avoid such sublease or arrangement in the exercise of their rights to repossession of the relevant Locomotives hereunder and thereunder, (ii) such sublease or arrangement shall not have a term which extends beyond the expiration of the Lease Term for such Locomotive and shall require that the sublessee use the Locomotives for the purpose for which they were designed and intended and (iii) Lessee shall remain fully and primarily liable for all

its obligations under this Lease and the other Operative Documents to the same extent as if such sublease or arrangement were not in effect.

(c) Indenture. Lessee hereby specifically consents to the Indenture and the mortgage, pledge and assignment effected or to be effected thereby. Lessee agrees to deliver any further consents and acknowledgments with respect to any such mortgage, pledge or assignment as Lessor or Indenture Trustee may reasonably request.

(d) Assignment by Lessor. Lessor will not assign or transfer its right, title and interest in and to this Lease or any Locomotive, except as contemplated by the Indenture and except that Lessor may prior to the end of the Lease Term agree to sell or otherwise dispose of such Locomotive effective at or after the end of the Lease Term therefor, provided that such agreement is expressly subject and subordinate to the Indenture and to the rights of Lessee hereunder. Prior to executing any such agreement, Lessor shall notify Lessee and Indenture Trustee thereof, but need not disclose the economic terms of such agreement.

SECTION 15. Events of Default. Each of the following events shall constitute an "Event of Default" (whether any such event shall be voluntary or involuntary or come about or be effected by operation of law or pursuant to or in compliance with any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body or other Applicable Law):

(a) Lessee shall fail to make any payment of Basic Rent, Interim Rent or Supplemental Rent on the date the same shall become due and such failure shall be continuing at the end of the seventh Business Day after the date the same shall become due or, in the case of Supplemental Rent other than Stipulated Loss Value or Termination Value payments, following written notice of such nonpayment from Lessor or Indenture Trustee to Lessee; or

(b) Lessee shall fail to perform or observe or shall otherwise breach any other material covenant or agreement to be performed or observed by it hereunder or under any other Operative Document to which it is a party (except for nonpayment covenants under the Tax Indemnification Agreement) and such failure or breach shall continue unremedied for a period of 30 days after

Lessee shall have received notice thereof from Lessor or Indenture Trustee, except that, so long as Lessee is diligently attempting to cure such failure, such failure is not curable by payment of money, the Notes have not been accelerated pursuant to Section 6.03 of the Indenture (or such acceleration has been rescinded pursuant to Section 6.02 of the Indenture), this Lease has not been terminated, the Locomotives have not been redelivered pursuant to Section 16(a) and no material risk of loss of any Locomotive exists as a result thereof, then such failure shall not constitute an Event of Default for an additional 60 days; or

(c) any representation or warranty made by Lessee herein or in any Operative Document (other than the Tax Indemnification Agreement) shall fail at any time to be correct as of the date made in any material respect and such failure shall not have been cured on or prior to 30 days after Lessee shall have received written notice thereof from Lessor or Indenture Trustee, except that, so long as Lessee is diligently attempting to cure such failure, such failure is not curable by payment of money, the Notes have not been accelerated pursuant to Section 6.03 of the Indenture (or such acceleration has been rescinded pursuant to Section 6.02 of the Indenture), this Lease has not been terminated, the Locomotives have not been redelivered pursuant to Section 16(a) and no material risk of loss of any Locomotive exists as a result thereof, then such failure shall not constitute an Event of Default for an additional 60 days; or

(d) Lessee shall file a voluntary petition in bankruptcy or a voluntary petition or an answer seeking reorganization in a proceeding under any applicable bankruptcy or insolvency law (as now or hereafter in effect) or an answer admitting the material allegations of a petition filed against Lessee in any such proceeding, or Lessee shall by voluntary petition, answer or consent, seek relief under the provisions of any now existing or future bankruptcy, insolvency or other similar law providing for the liquidation, reorganization or winding-up of corporations, or providing for an agreement, composition, extension or adjustment with its creditors; or

(e) a receiver, trustee, liquidator or custodian of Lessee or of a substantial part of its property

shall be appointed by court order and such order shall remain in effect for more than 90 days; or Lessee shall be adjudicated bankrupt or insolvent or any of its properties shall be sequestered by court order and such order shall remain in effect for more than 90 days; or a petition shall be filed against Lessee under any bankruptcy, reorganization, arrangement, insolvency, readjustment of debt, dissolution or liquidation law of any jurisdiction, whether now or hereafter in effect, and shall not be dismissed within 90 days after such filing; or Lessee makes a general assignment for the benefit of its creditors; or Lessee admits in writing its inability to pay its debts generally as they become due, or is unable to pay or is generally not paying its debts as they become due.

SECTION 16. Action Following an Event of Default.

Upon the occurrence of an Event of Default and at any time thereafter (unless Lessee shall have remedied all Events of Default prior to (i) the Notes having been accelerated pursuant to Section 6.03 of the Indenture (and such acceleration not having been rescinded pursuant to Section 6.02 of the Indenture), (ii) this Lease having been terminated or (iii) the Locomotives having been redelivered pursuant to Section 16(a)), Lessor or its agent may, at its option, do one or more of the following, as Lessor in its sole discretion shall so elect, to the extent permitted by and subject to compliance with any mandatory requirements of Applicable Law then in effect:

(a) Redelivery and Retaking. By notice in writing to Lessee, Lessor may terminate this Lease, whereupon all right of Lessee to the possession and use of the Locomotives shall absolutely cease and terminate as though this Lease had never been made, but Lessee shall remain liable as provided in this Section 16; and thereupon Lessor may cause Lessee, at Lessee's expense, to, and Lessee hereby agrees that it will, promptly redeliver the Locomotives, or cause the Locomotives to be redelivered, to Lessor with all reasonable dispatch and in the same manner and in the same condition as if the Locomotives were being redelivered in accordance with all the provisions of Sections 4(b) and 7(b) and all obligations of Lessor under said Sections and this Lease shall apply to such redelivery, provided that Lessor shall have the right to store each such redelivered Locomotive on storage tracks selected and owned by Lessee free of charge and at Lessee's risk for a period commencing on the date of the actual delivery thereof to

such storage tracks and terminating on a date 365 days after the actual delivery of the last Locomotive to such storage tracks and Lessee shall be obligated, upon ten days prior notice from Lessor, delivered from time to time during such storage period, to transport the number of Locomotives designated in such notice or notices to any interchange points on the lines of Lessee as Lessor may designate in such notice or notices; or Lessor, without further notice, may, but shall be under no obligation to, retake the Locomotives wherever found and irrespective of whether Lessee, any sublessee or any other Person is in possession of the Locomotives or any of them, and for that purpose Lessor may enter upon any premises where any such Locomotive is and may take immediate possession thereof and remove the same, and may use and employ in connection with such removal any services, aids, equipment, trackage and other facilities of Lessee, except that Lessor shall be liable for damages resulting from the wilful misconduct or gross negligence of Lessor, Lessor's assignees or their respective agents and representatives in any such entry or repossession. The exercise by Lessor of its remedies under this Section 16(a) shall be without prejudice and in addition to any of Lessor's other remedies referred to below in this Section 16.

(b) Liquidated Damages. Whether or not Lessor shall have exercised, or shall thereafter at any time exercise, any options, rights or remedies under Section 16(a) or 16(d), but provided Lessor shall not have exercised any remedies under Section 16(c), Lessor, by written notice to Lessee specifying a payment date not earlier than 10 nor later than 100 days from the date of such notice, may require Lessee to pay to Lessor, and Lessee hereby agrees that it will pay to Lessor on the payment date specified in such notice, as liquidated damages for loss of a bargain and not as a penalty, and in lieu of any further Basic Rent payments hereunder with respect to any Locomotive, all Basic Rent for such Locomotive payable on the Payment Date occurring on (to the extent payable in arrears) or before the payment date specified in such notice, plus any Supplemental Rent then due, plus an amount equal to the Stipulated Loss Value for such Locomotive computed as of the Payment Date immediately preceding the payment date specified in such notice (or as of such payment date if such payment date is a Payment Date), together with interest on all such amounts at the Overdue Rate for the period, if any, from the Payment Date as of which such Stipulated Loss Value shall be computed to and including the

date of actual payment; if Lessee shall have made the foregoing payments in full, Lessor shall thereafter pay over to Lessee, as and when from time to time received, the net proceeds of any sale, lease or other disposition of such Locomotive (after deducting all costs and expenses whatsoever incurred by Lessor, Owner Participant and Indenture Trustee in connection therewith and all other amounts which may become payable by Lessor, Owner Participant or Indenture Trustee with respect thereto) up to the amount of such Stipulated Loss Value actually paid.

(c) Alternate Liquidated Damages. Whether or not Lessor shall have exercised, or shall thereafter at any time exercise, any options, rights or remedies under Section 16(a) or 16(d), Lessor, in lieu of exercising its rights under Section 16(b) with respect to any Locomotive, may, by notice to Lessee specifying a payment date which is a date set forth in Schedule 1 and which is not earlier than 10 days after the date of such notice, demand that Lessee pay to Lessor and Lessee shall pay to Lessor, on such payment date, as liquidated damages for loss of a bargain and not as a penalty, and in lieu of Basic Rent for any Locomotive due on (to the extent Basic Rent is payable in advance on such payment date) and after such payment date, all unpaid Basic Rent for such Locomotive payable on (to the extent payable in arrears) or prior to such payment date, plus any Supplemental Rent then due, plus whichever of the following amounts Lessor, in its sole discretion, shall specify in such notice (together with interest on such amount at the Overdue Rate for the period from the payment date specified in such notice to the date of actual payment):

(i) an amount equal to the excess, if any, of the Stipulated Loss Value of such Locomotive computed as of the payment date specified in such notice over the Fair Market Rent thereof, determined by an Independent appraiser selected by Lessor, for the remainder of the economic life of such Locomotive after discounting such Fair Market Rent semiannually to present worth as of such payment date at a rate equal to 9.50% per annum;

(ii) an amount equal to the excess, if any, of the Stipulated Loss Value of such Locomotive computed as of the payment date specified in such notice over the Fair Market Value thereof, determined by an Independent appraiser selected by Lessor, as of such payment date;
or

(iii) an amount equal to the excess, if any, of the present value of the Basic Rent remaining to be paid for the remainder of the Lease Term for such Locomotive (computed utilizing a semiannual discount rate equal to 9.50% per annum) over the present value of the Fair Market Rent, determined by an Independent appraiser selected by Lessor, for such Locomotive for the remainder of such Term (computed utilizing a semiannual discount rate equal to 9.50% per annum).

(d) Sale; Use. Lessor may sell any Locomotive at public or private sale (and Lessor, each Participant and Indenture Trustee may bid at any such sale), by such advertisement or publication, if any, as Lessor may determine, or otherwise may dispose of, hold, use, operate, lease (whether for a period greater or less than the balance of what would have been the Lease Term in the absence of the termination of Lessee's rights to such Locomotive) to others or keep idle such Locomotive, all on such terms and conditions and at such place or places as Lessor may in its sole discretion determine and all free and clear of any rights of Lessee and of any claim of Lessee in equity, at law or by statute, whether for loss or damage or otherwise, and without any duty to account to Lessee except to the extent specifically provided in Section 16(b).

(e) Other Remedies. Lessor may exercise any other right or remedy, not inconsistent with the foregoing, that may be available to it at law or in equity or by statute or proceed by appropriate court action to enforce the terms of this Lease or to recover damages for the breach hereof.

In addition, Lessee shall be liable for any and all Supplemental Rent payable hereunder before, during or after the exercise of any of the foregoing remedies, which Supplemental Rent shall include, on an After-Tax Basis, all reasonable legal fees and other costs and expenses incurred by Lessor, Owner Participant, any Holder and Indenture Trustee by reason of the occurrence of any Event of Default or by reason of the exercise by Lessor, Owner Participant, any Holder or Indenture Trustee of any remedy hereunder, including any redelivery or retaking of such Locomotive in accordance with this Section 16 or the placing of such Locomotive in the condition required by the terms of Sections 4(b) and 7(b). Except as specifically provided herein, no remedy referred to in this Section 16 is intended to be exclusive, but each shall be cumulative and is in

addition to, and may be exercised concurrently with, any other remedy which is referred to in this Section 16 or which may otherwise be available at law or in equity or by statute. To the extent not required to satisfy any amounts payable under the Indenture or due to Lessor under this Lease and the other Operative Documents, there shall be deducted from the aggregate amount recoverable by Lessor any remaining moneys held by Lessor which would have been required by the terms hereof or any other Operative Document to have been paid to Lessee but payment of which has been suspended due to the occurrence of an Event of Default. To the extent permitted by Applicable Law, the rights of Lessor and the obligations of Lessee under this Section 16 shall be effective and enforceable regardless of the pendency of any proceeding which has or might have the effect of preventing Lessor and Lessee from complying with the terms of this Lease. No express or implied waiver by Lessor of any Event of Default shall in any way be, or be construed to be, a waiver of any further or subsequent Event of Default.

SECTION 17. Notices. All notices, consents, directions, approvals, instructions, requests and other communications required or permitted by the terms hereof shall be in writing, and any such notice shall become effective upon the earlier of actual receipt or five Business Days after being deposited in the mails, certified or registered, with appropriate postage prepaid for first-class mail or, if delivered by hand or courier service or in the form of facsimile transmission (with evidence of delivery attached thereto), when received, and shall be addressed (i) if to any party to the Participation Agreement, to the respective addresses set forth below the signatures of such parties on the signature pages of the Participation Agreement or (ii) in the case of any addressee, to such other address as any such addressee may designate by notice given to the parties hereto.

SECTION 18. Further Assurances; Perfection of Security Interests. Each party hereto shall promptly and duly execute and deliver to the other party or Indenture Trustee such further documents and assurances and take such further action as may from time to time be reasonably requested in order more effectively to carry out the intent and purpose of this Lease and the other Operative Documents and to establish and protect the rights and remedies created or intended to be created in favor of Lessee, Lessor and Indenture Trustee hereunder and under the Indenture. Upon termination of this Lease (by expiration or otherwise),

Lessor shall, upon Lessee's request and at Lessee's expense, execute and deliver to Lessee or Indenture Trustee such further documents and assurances and take such further actions as Lessee may reasonably request in order to satisfy the lien of the Indenture.

SECTION 19. Successor Trustees. Lessee agrees that in the case of the appointment of any successor trustee pursuant to the terms of the Trust Agreement or the Indenture, such successor trustee shall, upon written notice by such successor trustee to Lessee, succeed to all the respective rights, powers and title of Lessor hereunder or to all the rights and powers of Indenture Trustee hereunder, as the case may be, and shall be deemed to be the owner or mortgagee, respectively, of the Locomotives for all purposes hereof, without the necessity of any consent or approval by Lessee and without in any way altering the terms of this Lease or Lessee's obligations hereunder. One such appointment and designation of a successor trustee shall not exhaust the right to appoint and designate further successor trustees pursuant to the Trust Agreement or the Indenture, but such right may be exercised repeatedly as long as this Lease shall be in effect.

SECTION 20. Indenture Trustee. The provisions of this Lease that require or permit action by, the payment of any moneys to, the consent or approval of, the furnishing of any instrument or information to, or the performance of any other obligation to, Indenture Trustee shall not be effective after the lien of the Indenture has been released in accordance with Section 7.14 of the Indenture and Indenture Trustee has given Lessee and Lessor written notice thereof.

SECTION 21. Warranty Enforcement. For so long as no Event of Default has occurred and is continuing, Lessor constitutes Lessee as the agent and attorney-in-fact of Lessor for the purpose of exercising and enforcing, and with full right, power and authority to exercise and to enforce, to the exclusion of Lessor and all Persons claiming through or under Lessor, all of the right, title and interest of Lessor in, under and to all manufacturer's warranties, if any, in respect of the Locomotives. Lessor shall, at Lessee's request, execute and deliver any instruments reasonably requested by Lessee to enable Lessee to enforce such rights, if any.

SECTION 22. Lessor's Right To Perform for Lessee.

If Lessee fails to make any payment of Rent required to be made by it hereunder or fails to perform or comply with any of the terms of this Lease or any of its agreements contained herein, Lessor or Indenture Trustee may, on behalf of Lessee and upon notice to Lessee, but shall not be obligated to, itself make such payment, perform such agreement or remedy such failure to perform or comply. The amount of any such payment and the amount of the reasonable expenses of Lessor or Indenture Trustee incurred in connection with such payment or performance, together with interest thereon, to the extent permitted by Applicable Law, at the Overdue Rate, shall be deemed Supplemental Rent, payable promptly by Lessee to Lessor or Indenture Trustee upon demand. This Section 22 is not intended in any way as between Owner Participant and Lessor, on the one hand, and Indenture Trustee and the Holders, on the other hand, to expand or otherwise vary the cure rights of Owner Participant and Lessor set forth in the Indenture, or the limitations on exercise thereof set forth therein.

SECTION 23. Filings. Prior to the delivery and

acceptance of any Locomotive, Lessee will (i) cause this Lease (or a memorandum thereof), the Indenture and the Lease and Indenture Supplement to be (a) duly filed and recorded with the ICC in accordance with 49 U.S.C. § 11303 of the Interstate Commerce Act and (b) deposited in the office of the Registrar General of Canada pursuant to Section 90 of the Railway Act of Canada (and all necessary action shall have been taken for publication of notice of such deposit in the Canada Gazette in accordance with such Section 90), all within 21 days after the Closing Date, and (ii) cause financing statements under the Uniform Commercial Code to be filed against Lessor in respect of the security interest created by the Indenture in all places reasonably specified by Indenture Trustee or Loan Participant as necessary or desirable to perfect such security interest. Lessee will, from time to time, do and perform any other act and will execute, acknowledge, deliver, file, deposit, register and record (and will refile, redeposit, reregister or rerecord whenever required) any and all further instruments required by law or reasonably requested by Lessor or Indenture Trustee for the purpose of protecting Lessor's title to, or Indenture Trustee's security interest in, any Locomotive and the Lease, and in connection with any such action will deliver to Lessor and Indenture Trustee proof of such filings. Lessee will pay all costs, charges and expenses

incident to any such filing, refiling, recording, rerecording, depositing and redepositing.

SECTION 24. Miscellaneous. (a) Amendments. The terms of this Lease shall not be waived, altered, modified, amended, supplemented or terminated in any manner whatsoever except by written instrument signed by the party or parties to be charged and Indenture Trustee. No failure or delay of any party in exercising any power or right under this Lease shall operate as a waiver thereof, nor shall any single or partial exercise of any such right or power, or any abandonment or discontinuance of steps to enforce such right or power, preclude any other or further exercise thereof or the exercise of any other right or power.

(b) Successors and Assigns. This Lease shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns.

(c) Currency. All amounts and moneys referred to in this Lease shall refer to lawful money of the United States of America.

(d) Liabilities of Lessor. It is expressly agreed, anything herein to the contrary notwithstanding, that each and all of the representations, warranties, covenants, undertakings and agreements herein made on the part of Lessor or Owner Trustee are made and intended not as personal representations, warranties, covenants, undertakings and agreements by NationsBank, or for the purpose or with the intention of binding NationsBank personally, but are made and intended for the purpose of binding only the Trust Estate, and this Lease is executed and delivered by NationsBank not in its own right but solely in the exercise of the powers expressly conferred upon it as Owner Trustee under the Trust Agreement; and no personal liability or personal responsibility is assumed by or shall at any time be asserted or enforceable against NationsBank on account of this Lease or on account of any representation, warranty, covenant, undertaking or agreement of Lessor or Owner Trustee, either expressed or implied herein, all such personal liability, if any, being expressly waived and released by Lessee and by all Persons claiming by, through or under it, and that all recourse against NationsBank under this Lease shall be limited to the Trust Estate. Nothing herein shall be interpreted to relieve NationsBank from any personal liability expressly assumed in any Operative Document.

[4255-142/LEASE406.NEW/4200/3WN/120A]

(e) Descriptive Headings. The Table of Contents and the descriptive headings of the several sections and paragraphs of this Lease are inserted for convenience of reference only and do not constitute a part of this Lease.

(f) Counterparts. This Lease may be executed by the parties hereto on separate counterparts, each of which, when so executed and delivered, shall be an original, but all such counterparts shall together constitute but one and the same instrument.

(g) Chattel Paper. No security interest in this Lease may be created through the transfer or possession of any counterpart other than the original counterpart that contains the receipt therefor executed by Indenture Trustee on or immediately following the signature page hereof.

(h) Severability of Provisions. Any provision of this Lease that may be determined by competent authority to be prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction. To the extent permitted by Applicable Law, Lessee hereby waives any provision of law which renders any provision hereof prohibited or unenforceable in any respect.

(i) Governing Law. This Lease shall in all respects be governed by, and construed in accordance with, the law of the State of Nebraska (excluding the laws applicable to conflicts or choice of law), including all matters of construction, validity and performance.

(j) Quiet Enjoyment. Lessor acknowledges and agrees to the provisions of Section 10.02 of the Participation Agreement which are hereby incorporated herein by reference.

(k) Indemnities. Lessee agrees to perform all its obligations under Article XIV of the Participation Agreement, which are hereby incorporated herein by reference.

(l) Lease Not Conveyance to Lessee. This Lease shall be construed as an agreement of lease and nothing herein shall be construed as conveying to Lessee any right,

title or interest in or to any Locomotive except as lessee only.

(m) True Lease. It is the intent of the parties that this Lease shall be a true lease for purposes of Nebraska law and the Bankruptcy Code and not a "conditional sale", and that Owner Participant (through its interest in Lessor) shall at all times be considered to be the owner of each Locomotive for the purposes of all federal, state, city and local income taxes or for franchise taxes measured by income. Nothing contained in this Section 24(m) shall be construed to limit Lessee's use or operation of any Locomotive or constitute a representation, warranty or covenant by Lessee as to any tax consequences.

(n) Entitlement to §1168 Benefits. It is the intent of the parties that Lessor (and Indenture Trustee as assignee of Lessor under the Indenture) shall be entitled to the benefits of 11 U.S.C. §1168 with respect to the right to repossess any Locomotive as provided herein, and in any circumstances where more than one construction of the terms and conditions of this Lease is possible, a construction which would preserve such benefits shall control over any construction which would not preserve such benefits or would render them doubtful. To the extent consistent with the provisions of 11 U.S.C. §1168 or any analogous section of the Bankruptcy Code or other Applicable Law, it is hereby expressly agreed and provided that, notwithstanding any other provision of the Bankruptcy Code, any right of Lessor to take possession of any Locomotive in compliance with the provisions of this Lease shall not be affected by the provisions of 11 U.S.C. §362 or 363 or any analogous provision of any superseding statute or any power of a bankruptcy court to enjoin such undertaking or possession.

IN WITNESS WHEREOF, each of the parties hereto, pursuant to due corporate authority, has caused this Lease to be duly executed in its corporate name by its officers, thereunto duly authorized, all as of the date first above written and each of the undersigned signatories declares pursuant to 28 U.S.C. § 1746 under penalty of perjury under the laws of the United States of America that the foregoing is a true and correct document and was executed and delivered as of the date first above written.

Attest:

NATIONSBANK OF SOUTH CAROLINA,
NATIONAL ASSOCIATION
not in its individual
capacity but solely as
Owner Trustee,

Stefan Victory
Name: **Stefan Victory**
Trust Officer

by

Howard L. Shellkopf
Name: **Howard L. Shellkopf**
Title: **Vice President**

Attest:

UNION PACIFIC RAILROAD COMPANY,

by

Name

Name:
Title:

IN WITNESS WHEREOF, each of the parties hereto, pursuant to due corporate authority, has caused this Lease to be duly executed in its corporate name by its officers, thereunto duly authorized, all as of the date first above written and each of the undersigned signatories declares pursuant to 28 U.S.C. § 1746 under penalty of perjury under the laws of the United States of America that the foregoing is a true and correct document and was executed and delivered as of the date first above written.

Attest:

NATIONSBANK OF SOUTH CAROLINA,
NATIONAL ASSOCIATION
not in its individual
capacity but solely as
Owner Trustee,

by

Name:

Name:
Title:


Attest:



Name

UNION PACIFIC RAILROAD COMPANY,

by



Name:
Title: Assistant Treasurer

STATE OF GEORGIA)
)
COUNTY OF FULTON)

On this 30th day of March 1994, before me personally appeared Howard L. Shellkopf, to me personally known, who, being by me duly sworn, says that he is Vice President of NATIONS BANK OF SOUTH CAROLINA, NATIONAL ASSOCIATION, that one of the seals affixed to the foregoing instrument is the seal of said corporation, that said instrument was signed and sealed on behalf of said corporation by authority of its Board of Directors, and he acknowledged that the execution of the foregoing instrument was the free act and deed of said corporation.

Deborah B. Jessor
Notary Public

[Notarial Seal]

My Commission Expires
October 21, 1997

STATE OF)
) ss.:
COUNTY OF)

On this day of 4, before me personally appeared , to me personally known, who, being by me duly sworn, says that he is a of UNION PACIFIC RAILROAD COMPANY, that one of the seals affixed to the foregoing instrument is the corporate seal of said corporation, that said instrument was signed and sealed on behalf of said corporation by authority of its Board of Directors, and he acknowledges that the execution of the foregoing instrument was the free act and deed of said Corporation.

Notary Public

[Notarial Seal]

My Commission Expires

[D. JOHNSON-UP/LEASE394.WPF/4575/120A]

STATE OF)
)
COUNTY OF)

On this day of 1994, before me personally appeared , to me personally known, who, being by me duly sworn, says that he is of NATIONSBANK OF SOUTH CAROLINA, NATIONAL ASSOCIATION, that one of the seals affixed to the foregoing instrument is the seal of said corporation, that said instrument was signed and sealed on behalf of said corporation by authority of its Board of Directors, and he acknowledged that the execution of the foregoing instrument was the free act and deed of said corporation.

Notary Public

[Notarial Seal]

My Commission Expires

STATE OF PENNSYLVANIA)
) ss.:
COUNTY OF LEHIGH)

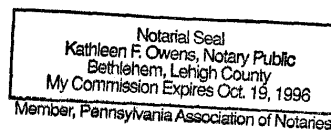
On this 6th day of April, 1994, before me, a notary public, personally appeared John B. Larsen, to me personally known, who, being by me duly sworn, says that he is a Asst. Treasurer of UNION PACIFIC RAILROAD COMPANY, that one of the seals affixed to the foregoing instrument is the corporate seal of said corporation, that said instrument was signed and sealed on behalf of said corporation by authority of its Board of Directors, and he acknowledges that the execution of the foregoing instrument was the free act and deed of said Corporation.

Kathleen F. Owens

Notary Public

[Notarial Seal]

My Commission Expires



[D.JOHNSON-UP/LEASE394.WPF/4575/120A]

SCHEDULE X

DEFINITIONS

"Act" is defined in Section 10.02 of the Indenture.

"Additional Notes" is defined in Article III of the Indenture.

"Affiliate" of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For purposes of this definition, "control" when used with respect to any specified Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"After-Tax Basis" means, with respect to any payment or indemnity, that the amount thereof shall include the net amount necessary to hold the recipient thereof harmless on an after-tax basis from all taxes required to be paid or credited by such recipient at the actual tax rates applicable to such payment or indemnity under the laws of any taxing authority.

"Applicable Law" means all applicable laws (foreign or domestic), treaties, judgments, decrees, injunctions, writs and orders of any court, governmental agency or authority and rules, regulations, orders, directives, licenses and permits of any governmental body, instrumentality, agency or authority, including all rules and regulations of the United States Department of Transportation, the Federal Railroad Administration and the ICC and the then applicable Interchange Rules and Supplements thereto of the Mechanical Division, Association of American Railroads.

"Appraisal" is defined in Section 4.01(d) of the Participation Agreement.

"Appraisal Procedure" means the procedure specified in the succeeding sentences for determining an amount or value. If either Lessor or Lessee shall give written notice to the other, in accordance with the Operative Documents, requesting determination of such amount or value by appraisal, such notice (the date of which shall

be the "Appraisal Request Date") shall also designate a qualified Independent appraiser who shall determine such amount or value. If the other party notifies the party giving such notice within 20 days of the Appraisal Request Date that such appraiser is not reasonably acceptable, such amount or value shall be determined by an Independent appraiser selected by the American Arbitration Association. The appraiser selected pursuant to the foregoing procedure shall be instructed to determine such amount or value within 30 days after its appointment (but in no event may such determination be made more than 90 days following the Appraisal Request Date), and such determination shall be final and binding upon the parties. If the Appraisal Procedure is utilized in connection with the possible exercise of a renewal or purchase option pursuant to Section 4(a) of the Lease, all fees and expenses relating to the Appraisal Procedure shall be borne by Lessee. In all other instances, each party shall bear its respective fees and expenses with respect to any Appraisal Procedure and one-half of the fees and expenses of the appraiser.

"Approvals" is defined in Section 4.01(c) of the Participation Agreement.

"Assumption Event" is defined in Section 4.04 of the Indenture.

"Average Life Date" means, with respect to the prepayment of an Interim Note, the date which follows the Redemption Date by a period equal to the number of days equal to the quotient obtained by dividing (a) the sum of the products obtained by multiplying (i) the amount of each remaining principal installment on such Interim Note by (ii) the number of days from and including the Redemption Date to but excluding the scheduled payment date of such principal installment by (b) the unpaid principal amount of such Interim Note.

"Average Rent" for a Locomotive means an amount equal to all Basic Rent due for such Locomotive during the Basic Term divided by the number of Payment Dates during the Basic Term.

"Bankruptcy Code" means the Bankruptcy Code of 1978.

"Basic Rent" means the rent payable throughout the Lease Term pursuant to Section 3(b) of the Lease.

"Basic Term" is defined in Section 2(b) of the Lease.

"Basic Term Commencement Date" means January 1, 1995.

"Bill of Sale" means the warranty bill of sale of Seller, dated the Closing Date, for Locomotives being delivered on the Closing Date.

"Board Resolution" means, with respect to any Person, a copy of a resolution certified by the secretary or an assistant secretary or other authorized signatory of such Person to have been duly adopted by the Board of Directors or other governing body of such Person and to be in full force and effect on the date of such certification.

"Business Day" means any day other than a Saturday or Sunday or other day on which banks in New York, New York, Chicago, Illinois, or Columbia, South Carolina, are authorized or obligated to be closed.

"Claim" means any and all liabilities (including strict or absolute liability in tort or otherwise), losses, damages, penalties, costs, actions or suits, which may be imposed on, incurred by, suffered by or asserted against any indemnitee including all reasonable costs, disbursements and expenses (including legal fees and expenses) in connection therewith or related thereto.

"Closing" with respect to any Locomotive means the delivery of such Locomotive to and acceptance thereof by or on behalf of Owner Trustee from Seller and the delivery of such Locomotive by Owner Trustee to and acceptance thereof by Lessee.

"Closing Date" means April 8, 1994.

"Code" means the Internal Revenue Code of 1986.

"Commitment" means, in the case of Loan Participant, the principal amount of Notes to be purchased by it on the Closing Date or the Funding Date pursuant to Article II of the Participation Agreement and, in the case of Owner Participant, the amount of the investment to be made by it on the Closing Date or the Funding Date pursuant to Article II of the Participation Agreement.

"Default" means an event or condition that, with giving of notice or lapse of time or both, would become an Event of Default.

"Employee Benefit Plan" means both an "employee benefit plan" as defined in Section 3(3) of ERISA and a "plan" as defined in Section 4975(e)(1) of the Code.

"ERISA" means the Employee Retirement Income Security Act of 1974 and the rules and regulations promulgated thereunder.

"Event of Default" is defined in Section 15 of the Lease.

"Event of Loss" means with respect to any Locomotive any of the following events: (i) such Locomotive suffers an actual or constructive total loss in the reasonable opinion of a Responsible Officer of Lessee, (ii) such Locomotive becomes destroyed or irreparably damaged or uneconomical to repair from any cause whatsoever, in each case in the reasonable opinion of a Responsible Officer of Lessee, (iii) title to such Locomotive is taken, condemned or requisitioned by any governmental authority, (iv) such Locomotive is taken, condemned or requisitioned for use by (a) the United States government for a period exceeding the lesser of one year and the remaining Lease Term or (b) any other governmental authority for a period exceeding the lesser of 180 days and the remaining Lease Term, (v) such Locomotive is lost, stolen or otherwise disappears for a period exceeding 180 days, (vi) the use of such Locomotive in the normal course of interstate rail transportation shall have been prohibited for a continuous period in excess of six months as a result of any rule, regulation, order or other action by the United States government or any agency or instrumentality thereof unless Lessee has undertaken and is diligently pursuing actions necessary to permit such use or (vii) Lessee has not redelivered such Locomotive in accordance with Section 4(b) of the Lease and in the condition required by Section 7(b) of the Lease on or before 270 days after the end of the Lease Term. The date of such Event of Loss shall be the date of the event giving rise thereto, except that for purposes of clauses (iv), (v), (vi) and (vii) above, no Event of Loss shall be deemed to have occurred until the end of the applicable period specified therein.

"Excepted Property" and "Excepted Rights" are defined in the Granting Clause of the Indenture.

"Excess Amount" is defined in Article XIII of the Participation Agreement.

"Fair Market Rent" or "Fair Market Sale Value" for any Locomotive means the rent for or sale value of such Locomotive (excluding any Severable Improvements title to which has vested in Lessee) that would be obtained in an arm's-length transaction between an informed and willing owner or seller and an informed and willing lessee or buyer, each under no compulsion to lease or sell or buy, which determination shall (unless being made pursuant to Section 16 of the Lease) be made (i) without deduction for any costs of removal of such Locomotive from the location of current use and (ii) on the assumption that such Locomotive is (a) free and clear of all Liens and is in the condition and repair in which it is required to be returned pursuant to Sections 4(b) and 7(b) of the Lease (but otherwise on an "as is" basis) and (b) interchangeable under the rules of the Association of American Railroads and other Applicable Law.

"Final Determination" means (i) a decision, judgment, decree or other order by any court of competent jurisdiction, which decision, judgment, decree or other order has become final (i.e., when all allowable appeals have been exhausted by either party to the action), (ii) a closing agreement entered into under Section 7121 of the Code or any other binding settlement agreement entered into by Owner Participant in connection with an administrative or judicial proceeding (provided Lessee has been reasonably consulted and properly informed by Owner Participant throughout the proceeding of any such closing agreement or settlement agreement and such agreement has been entered into by Owner Participant with the written approval of Lessee), (iii) the expiration of the time for instituting a claim for refund, or if such a claim was filed, the expiration of the time for instituting suit with respect thereto or (iv) settlement of the contest with Lessee's written consent or Lessee's written agreement to discontinue or concede any proceedings or claims or the termination of Lessee's right to have the claim contested.

"Funding Date" means the date specified as such pursuant to Section 2.04 of the Participation Agreement.

"GP15-1" means an EMD/GP15-1 general purpose locomotive, as more particularly described in Schedule 3 to the Participation Agreement.

"GP38-2" means an EMD/GP38-2 general purpose locomotive, as more particularly described in Schedule 3 to the Participation Agreement.

"Guarantor" means Signet Bank/Maryland, a Maryland banking corporation.

"Guaranty" means the Guaranty, dated as of March 31, 1994, executed by Guarantor.

"Harris" means Harris Trust and Savings Bank, an Illinois banking corporation (or any successor as Indenture Trustee under the Indenture), in its individual capacity.

"Holder" means the Person in whose name any Note is registered on the Note Register.

"ICC" means the Interstate Commerce Commission and any agency or instrumentality of the United States succeeding to its functions.

"Improvement" means an improvement, structural change, modification or addition, other than Rehabilitation work, to any Locomotive made after the Closing Date.

"Indemnatee" means Owner Trustee (in its individual capacity and as trustee), Indenture Trustee (in its individual capacity and as trustee), Pass-Through Trustee (in its individual capacity and as trustee), each Participant, each Holder and their respective servants, officers, directors, agents and Affiliates and the successors and assigns of any of the foregoing.

"Indenture" means the Indenture and Security Agreement dated as of March 31, 1994, between Owner Trustee and Indenture Trustee.

"Indenture Default" means an event or condition that, with the giving of notice or lapse of time or both, would become an Indenture Event of Default.

"Indenture Estate" is defined in the Recital Clause of the Indenture.

"Indenture Event of Default" is defined in Section 6.01 of the Indenture.

"Indenture Trustee" means Harris, not in its individual capacity but solely in its capacity as Indenture Trustee under the Indenture.

"Independent" means, when used with respect to any specified Person, such a Person who (1) is in fact independent, (2) does not have any direct financial interest or any material indirect financial interest in Owner Trustee, any Participant or Lessee or in any Affiliate of any of them and (3) is not connected with any Participant, Owner Trustee or Lessee or any such Affiliate as an officer, employee, promoter, underwriter, trustee, partner, director or person performing similar functions. Whenever it is provided that any Independent Person's opinion or certificate shall be furnished to Indenture Trustee or Owner Trustee, such Person shall be appointed by Lessee and approved by Indenture Trustee or Owner Trustee in the exercise of reasonable care and such opinion or certificate shall state that the signer has read this definition and is Independent within the meaning thereof.

"Interim Interest" means the interest due on the Notes on the date of redemption of the Interim Notes (so long as such date is prior to the Basic Term Commencement Date) and on the Basic Term Commencement Date.

"Interim Loan Participant" means the Holder of the Interim Notes.

"Interim Notes" is defined in Section 2.02 of the Indenture.

"Interim Rent" means the rent payable, if any, on the date of redemption of the Interim Notes (so long as such date is prior to the Basic Term Commencement Date) and on the Basic Term Commencement Date.

"Interim Term" is defined in Section 2(b) of the Lease.

"Lease" means the Lease Agreement dated as of March 31, 1994, between Lessee and Owner Trustee.

"Lease and Indenture Supplement" means a Lease and Indenture Supplement among Owner Trustee, Lessee and

Indenture Trustee, substantially in the form of Exhibit A to the Lease, executed and delivered on the Closing Date.

"Lease Term" is defined in Section 2(b) of the Lease.

"Lessee" means Union Pacific Railroad Company, a Utah corporation.

"Lessor" means Owner Trustee as lessor under the Lease.

"Lessor's Cost" means, as of the Closing Date, for any Locomotive the amount set forth in the Lease and Indenture Supplement and, as of the Funding Date, such amount plus the amount for such Locomotive set forth in the invoice delivered pursuant to Section 2.01 of the Participation Agreement. The Lessor's Cost shall not exceed (i) for MP15s, \$210,423 (ii) for GP15-1s, \$242,688 and (iii) for GP38-2s, \$296,415.

"Lien" means any mortgage, pledge, charge, encumbrance, disposition of title, lease or security interest.

"Loan Participant" means, with respect to the Interim Notes, National Westminster Bank Plc, an English banking corporation, and, with respect to Additional Notes issued to refund Interim Notes, either Pass-Through Trustee or the other entity or entities referred to in Section 2.01 of the Participation Agreement.

"Locomotive" means an MP15, a GP15-1 or a GP38-2 acquired by Owner Trustee.

"MP15" means an EMD/MP15 multipurpose locomotive, as more particularly described in Schedule 3 to the Participation Agreement.

"NationsBank" means NationsBank of South Carolina, National Association (or any successor as Owner Trustee under the Trust Agreement), in its individual capacity.

"Net Return" means Owner Participant's anticipated nominal after-tax yield (using a multiple investment sinking fund method of analysis) and aggregate after-tax cash flow with respect to the transactions contemplated by the Operative Documents, computed on the basis of the same

methodology and assumptions as are set forth in Schedule 4 to the Participation Agreement and as were utilized in determining the schedules of Basic Rent, Stipulated Loss Values and Termination Values attached to the Lease on the Closing Date and without considering Owner Participant's cost of capital or any other factor.

"Nonseverable Improvement" means (i) any Improvement that shall not be "readily removable from a Locomotive without causing material damage to it", within the meaning of Revenue Procedure 79-48 of the Internal Revenue Service, or (ii) any Improvement required by Applicable Law.

"Note Register" is defined in Section 2.04 of the Indenture.

"Notes" means all Notes issued under the Indenture, including Interim Notes and Additional Notes.

"Obligations" is defined in the Recital Clause of the Indenture.

"Officer's Certificate" means with respect to any Person, a certificate signed by the Chairman of the Board, the President, a Vice President or a Responsible Officer of such Person.

"Operative Documents" means the Participation Agreement, the Trust Agreement, each Pass-Through Trust, the Indenture, the Notes, the Lease, the Lease and Indenture Supplement, the Guaranty, the Bill of Sale and the Tax Indemnification Agreement.

"Opinion of Counsel" means a written opinion of counsel, who shall be reasonably acceptable to Indenture Trustee (or such other Person to whom such opinion is to be addressed pursuant to any of the Operative Documents).

"Outstanding" when used with respect to the Notes means, as of the date of determination, all the Notes theretofore authenticated and delivered under the Indenture, except:

- (1) Notes theretofore cancelled by Indenture Trustee or delivered to Indenture Trustee for cancellation;

(2) Notes for whose payment or redemption money in the necessary amount has been theretofore deposited with Indenture Trustee, provided that, if such Notes are to be redeemed, notice of such redemption has been duly given pursuant to the Indenture or provision therefor satisfactory to Indenture Trustee has been made; and

(3) Notes in exchange for or in lieu of which other Notes have been authenticated and delivered under the Indenture;

provided, however, that in determining whether the Holders of the requisite principal amount of Notes Outstanding have given any request, demand, authorization, direction, notice, consent or waiver under any Operative Document, Notes owned by Owner Participant, Owner Trustee or Lessee, or any Affiliate of any of them, shall be disregarded and deemed not to be Outstanding, except that, in determining whether Indenture Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent or waiver, only Notes that Indenture Trustee knows to be so owned shall be so disregarded. Notes so owned that have been pledged in good faith may be regarded as Outstanding for such purposes if the pledgee establishes to the satisfaction of Indenture Trustee the pledgee's right so to act with respect to such Notes and that the pledgee is not Owner Participant, Owner Trustee or Lessee, or any Affiliate of any of them.

"Overdue Rate" means with respect to (i) any amount required to be paid to a Holder of a Note, a rate per annum equal to two percentage points over the interest rate payable in respect of such Note and (ii) any amount constituting Excepted Property or otherwise payable to Owner Trustee or Owner Participant, a rate per annum equal to 11.5%, in each case computed on the basis of a 360-day year of twelve 30-day months.

"Owner Encumbrances" means any Liens against the Locomotives or any part of the Indenture Estate or the Trust Estate that result from acts of, or any failure to act by, or as a result of claims (including any taxes) against, NationsBank, Owner Trustee or Owner Participant arising out of any event or condition unrelated to the ownership of a Locomotive, the administration of the Trust Estate or the transactions contemplated by the Operative Documents, excluding Liens arising from any tax for which Lessee is

obligated to indemnify, but has not yet indemnified, under the Tax Indemnification Agreement or the Participation Agreement.

"Owner Participant" means Signet Leasing and Financial Corporation, a Maryland corporation.

"Owner Trustee" means NationsBank, not in its individual capacity but solely in its capacity as trustee under the Trust Agreement.

"Owner Trustee Request" means a written request signed in the name of Owner Trustee and delivered to Indenture Trustee together with a form of any writing to be executed by Indenture Trustee pursuant to such request.

"Participants" means, collectively, Loan Participant and Owner Participant.

"Participation Agreement" means the Participation Agreement dated as of March 31, 1994, among Lessee, Owner Participant, Interim Loan Participant, Owner Trustee and Indenture Trustee.

"Pass-Through Trust" means any Pass-Through Trust Agreement between Pass-Through Trustee and Lessee contemplated by Section 2.01 of the Participation Agreement.

"Pass-Through Trustee" means Harris, in its capacity as Pass-Through Trustee under a Pass-Through Trust.

"Payment Date" means each January 1 and July 1 during (and including the last day of) the Lease Term, beginning July 1, 1995, or, if any such date is not a Business Day, the next succeeding Business Day.

"Percentage Commitment" of Owner Participant means the percentage set forth in Schedule 2 to the Participation Agreement, as adjusted pursuant to Section 2.01 of the Participation Agreement.

"Permitted Encumbrances" means (a) the rights of Indenture Trustee under the Indenture, (b) the rights of Lessee under the Lease, including subleases of and similar arrangements involving any Locomotive in accordance with the terms of the Lease, (c) Owner Encumbrances and the rights of Owner Trustee and Owner Participant under the Trust Agreement, which rights are subject to the liens and

security interests created by the Indenture, (d) liens for taxes either not yet due or being contested by Lessee in good faith by appropriate proceedings, diligently prosecuted or appealed and which do not involve a non-de minimis risk of a sale, forfeiture or loss of a Locomotive and (e) undetermined or inchoate materialmen's, mechanics', worker's, repairer's or employees' liens or other like liens arising in the ordinary course of business and security obligations which are not delinquent or which shall have been bonded or the enforcement of which shall have been suspended and which do not involve a non-de minimis risk of sale, forfeiture or loss of a Locomotive and which are being contested by Lessee in good faith by appropriate proceedings diligently prosecuted or appealed.

"Permitted Investments" means (i) direct obligations of the United States of America and agencies thereof, (ii) obligations fully guaranteed by the United States of America and certificates of deposit issued by, or bankers' acceptances of, or time deposits with, any bank, trust company or national banking association incorporated or doing business under the laws of the United States of America or one of the states thereof having combined capital and surplus and retained earnings of at least \$500,000,000 (including Indenture Trustee and Owner Trustee if such conditions are met), (iii) commercial paper of companies, banks, trust companies or national banking associations incorporated or doing business under the laws of the United States of America or one of the states thereof and in each case having a rating assigned to such commercial paper by Standard & Poor's Corporation or Moody's Investors Service, Inc. (or, if neither such organization shall rate such commercial paper at any time, by any nationally recognized rating organization in the United States of America) equal to the highest rating assigned by such organization and (iv) repurchase agreements with any financial institution having a combined capital and surplus of at least \$750,000,000 fully collateralized by obligations of the type described in clauses (i) through (iii) above. If all of the above investments are unavailable, the entire amount to be invested may be used to purchase Federal Funds from an entity described in clause (ii) above.

"Person" means any individual, corporation, partnership, joint venture, association, joint-stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

"Premium" means, with respect to any Additional Note, the premium referred to in the supplemental indenture creating the same and, with respect to any Interim Note, the product obtained by multiplying (a) the excess, if any, of (i) the sum of the present values of all the remaining scheduled payments of principal and interest from the Redemption Date to maturity of such Interim Note, discounted semiannually on each January 1 and July 1 at a rate equal to the Treasury Rate, based on a 360-day year of twelve 30-day months, over (ii) the aggregate unpaid principal amount of such Interim Note (after deducting the principal installment, if any, due on such Redemption Date) plus any accrued but unpaid interest thereon by (b) a fraction the numerator of which shall be the principal amount of such Interim Note to be prepaid on such Redemption Date and the denominator of which shall be the aggregate unpaid principal amount of such Interim Note (after deducting the principal installment, if any, due on such Redemption Date).

"Treasury Rate", as used above, means a per annum rate (expressed as a semiannual equivalent and as a decimal and, in the case of United States Treasury bills, converted to a bond equivalent yield) determined to be the per annum rate equal to the semiannual yield to maturity for United States Treasury securities maturing on the Average Life Date of such Interim Note, as determined by interpolation between the most recent weekly average yields to maturity for two series of United States Treasury securities, one maturing as close as possible to, but earlier than, the Average Life Date of such Interim Note and the other maturing as close as possible to, but later than, the Average Life Date of such Interim Note, in each case as published in the most recent H.15(519) (or, if a weekly average yield to maturity for United States Treasury securities maturing on the Average Life Date of such Interim Note is reported in the most recent H.15(519), as so reported). H.15(519) means "Statistical Release H.15(519), Selected Interest Rates", or any successor publication, published by the Board of Governors of the Federal Reserve System. The most recent H.15(519) means the latest H.15(519) which is published prior to the close of business on the third Business Day preceding the scheduled Redemption Date.

"Prime Rate" means the interest rate publicly announced in New York, New York, by Citibank, N.A., from time to time as its base rate of interest per annum.

"Redelivery Locations" is defined in Section 4(b) of the Lease.

"Redemption Date" when used with respect to any Note to be redeemed means the date fixed for such redemption pursuant to the Indenture.

"Refinanced Notes" is defined in Article III(a) of the Participation Agreement.

"Rehabilitation" means the rehabilitation and modification work performed and to be performed by an Affiliate of Lessee more particularly described in Section 7.01.B(d) of the Participation Agreement.

"Reimbursement Amount" is defined in Section 2.02(b) of the Participation Agreement.

"Renewal Term" means the period of any extension of the Basic Term (or a prior Renewal Term) as provided in Section 4(a) of the Lease.

"Renewal Term Commencement Date" is defined in Section 4(a) of the Lease.

"Rent" means Interim Rent, Basic Rent and Supplemental Rent.

"Replacement Locomotive" means a locomotive which is replacing a Locomotive with respect to which an Event of Loss has occurred pursuant to Section 12(c) of the Lease.

"Responsible Officer" means, with respect to the subject matter of any covenant, agreement or obligation of any party contained in any Operative Document, the President, any Vice President, Assistant Vice President, Treasurer, Assistant Treasurer or other officer who in the normal performance of his or her operational responsibility would have knowledge of such matter and the requirements with respect thereto.

"Securities Act" means the Securities Act of 1933.

"Seller" means Union Pacific Holdings, Inc.

"Severable Improvement" means any Improvement other than a Nonseverable Improvement.

"Stated Maturity" when used with respect to any Note or any installment of interest thereon means the date specified in such Note as the fixed date on which the

principal of such Note or such installment of interest is due and payable.

"Stipulated Loss Value" with respect to any Locomotive as of any Payment Date means an amount determined by multiplying Lessor's Cost for such Locomotive by the percentage specified in Schedule 1 to the Lease or the appropriate supplement opposite such Payment Date.

"Supplemental Rent" means any and all amounts (other than Interim Rent and Basic Rent) that Lessee assumes the obligation to pay or agrees to pay under the Lease, the Indenture, the Tax Indemnification Agreement, the Participation Agreement or any other Operative Document to Owner Trustee, Indenture Trustee, a Participant or others, including payments of indemnities, Stipulated Loss Value, Termination Value, Premium and all amounts payable by Lessee pursuant to Section 3(c) of the Lease.

"Taxes" is defined in Section 14.02(a) of the Participation Agreement.

"Tax Indemnification Agreement" means the Tax Indemnification Agreement dated as of March 31, 1994, between Lessee and Owner Participant.

"Termination Date", "Termination Notice" and "Termination Right" are defined in Section 13(a) of the Lease.

"Termination Value" with respect to any Locomotive as of any Payment Date means an amount determined by multiplying Lessor's Cost for such Locomotive by the percentage specified in Schedule 2 to the Lease or the appropriate supplement opposite such Payment Date.

"TIA" means the Trust Indenture Act of 1939.

"Transaction Costs" is defined in Section 11.01 of the Participation Agreement.

"Trust Agreement" means the Trust Agreement dated as of March 31, 1994, between NationsBank and Owner Participant.

"Trust Estate" means all estate, right, title and interest of Owner Trustee in and to the Locomotives and the Operative Documents to which it is a party (other than the

Trust Agreement) or in which it otherwise has an interest, including (i) all amounts payable to Owner Trustee under such Operative Documents and (ii) any and all payments or proceeds received by Owner Trustee after the termination of the Lease with respect to all or any part of the Locomotives as the result of the sale, lease or other disposition thereof.

"Trustor" is defined in the introductory paragraph of the Trust Agreement.

"Type" means MP15s, GP15-1s or GP38-2s.

"Unit Selection Process" means the following procedure for selecting Locomotives in connection with a renewal of the Lease or a purchase of Locomotives by Lessee: Lessee shall designate, and Lessee and Lessor shall attempt to agree on, such Locomotives. If Lessee and Lessor are unable to agree within 15 days after Lessee's designation, the Locomotives actually chosen shall be randomly selected on a blind basis by an Independent third party chosen by Lessee and Lessor (and if Lessee and Lessor are unable to select such Independent third party within 30 days after Lessee's designation, by an Independent third party chosen by the American Arbitration Association), without regard to the condition of any such Locomotive.

"Verifying Accountant" means (i) a nationally recognized, "Big Six" accounting firm selected by Lessee and reasonably acceptable to Owner Participant (it being understood that the fact that an accounting firm provides or has provided accounting services to Lessee, Owner Participant or any of their Affiliates does not, by itself, disqualify such accounting firm) or (ii) a Person mutually agreeable to Lessee and Owner Participant.

RULES OF INTERPRETATION

1. A reference to any document or agreement shall include such document or agreement as amended, modified or supplemented from time to time.

2. The singular includes the plural and the plural includes the singular.

3. A reference to any law or regulation includes any amendment or modification to such law or regulation made before the relevant date or any successor law or regulation.

4. A reference to any Person includes its permitted successors and permitted assigns.

5. Where the character or amount of any asset or liability or item of income or expense is required to be determined or any consolidation or other accounting computation is required to be made for any purpose under an Operative Document, such determination or computation shall be done in accordance with generally accepted accounting principles at the time in effect, to the extent applicable, except where such principles are inconsistent with the requirements of any Operative Document.

6. The words "include", "includes" and "including" are not limiting.

7. Unless otherwise stated, all references to Sections and Articles shall mean and refer to the respective Sections and Articles in the agreement or document in which such reference appears.

8. The words "hereunder" and "hereby" refer to the agreement or document in which such words appear.